ශ්‍රී ලංකා මහ බැංකුව
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

Issued By Economic Research Department
Date 03.12.2013

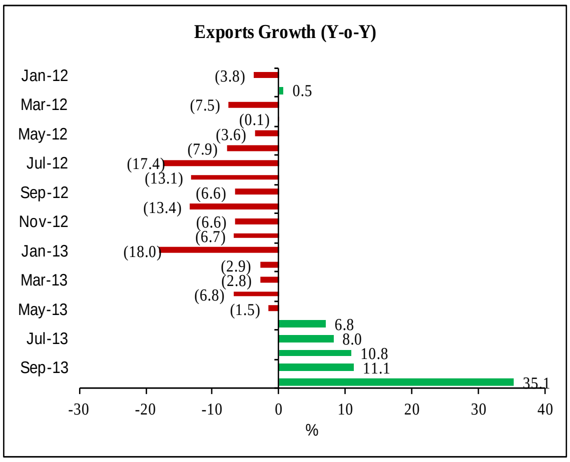
External Sector Performance – October 2013

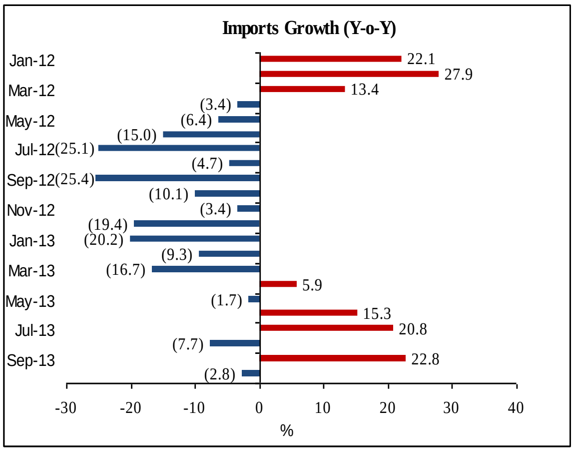
Overview

The external sector strengthened further with the trade deficit contracting sharply in October 2013. Earnings from exports increased to record levels, reflecting the ongoing recovery in the global economy, while expenditure on imports declined. The contraction of the trade deficit, higher inflows to the services account and an increase in private transfers contributed to reducing the current account deficit. The favourable developments in the external sector together with higher inflows to the financial account, resulted in the Balance of Payments (BOP) recording an estimated surplus during the first ten months of 2013, compared to the deficit recorded during the corresponding period of 2012.

Trade Account of the BOP

Continuing the increasing trend observed from June 2013, earnings from exports in October 2013 exceeded US dollars 1 billion for the first time in the history. This was a 35.1 per cent, year-on-year, increase which is the highest growth rate recorded since May 2011, while expenditure on imports declined by 2.8 per cent compared to the corresponding month in 2012. Consequently, the trade deficit contracted significantly by 38.9 per cent to US dollars 494 million during this period. On a cumulative basis, earnings from exports during the first ten months of 2013 grew by 3.6 per cent, while expenditure on imports contracted by 1.1 per cent from the corresponding period in 2012. Accordingly, the cumulative trade deficit contracted by 6 per cent to US dollars 7,216 million, during the period compared to the corresponding period of 2012.





Earnings from exports in October 2013 reached US dollars 1,041 million, the highest ever monthly value recorded in the history of Sri Lanka's exports. This growth was led by industrial exports followed by agricultural exports. Earnings from industrial exports in October 2013, which account for more than 74 per cent of total exports, increased by 34 per cent on a year-on year basis to US dollars 771 million mainly due to higher export of textiles and garments. Earnings from textiles and garments exports grew by 46.8 per cent, year-on-year, to US dollars 436 million in October 2013, which was the highest monthly value of export of garment and textiles ever recorded. Exports of garments to both the EU and USA, which are Sri Lanka's major export destinations, recorded remarkable growth rates of 53.2 per cent and 43.4 per cent, respectively in October 2013, reflecting the recovery in those economies as well as seasonal demand. Meanwhile, earnings from rubber product exports increased by 50.1 per cent, year-on-year, to US dollars 94 million in October 2013, the highest monthly value since August 2012, led by higher exports of rubber tyres. All categories of industrial exports, except gems diamonds and jewellery, animal fodder and petroleum products grew in October 2013. Earnings from agricultural exports rose by 37.4 per cent, year-on-year, to US dollars 258 million in October 2013 mainly due to an increase in export earnings from tea followed by spices. Earnings from tea exports recorded a healthy growth of 26.6 per cent to US dollars 147 million in October 2013. This was the combined outcome of a 13.6 per cent increase in export volumes and an increase in the average export price of tea by 11.4 per cent. Earnings from the export of spices increased significantly by 79.9 per cent to US dollars 41 million led by pepper and cinnamon exports. Continuing the strong performance recorded since June 2013, the volume of both pepper and cinnamon exports increased substantially although prices of those commodities declined, year-on-year. However, in October 2013 rubber export earnings contracted by 29.0 per cent compared to October 2012, due to the continuing decline in both export volumes and prices, owing to low demand from major rubber consumers, such as China and Japan.

Expenditure on imports declined by 2.8 per cent to US dollars 1,535 million in October 2013, due to the significant decline in both intermediate and investment goods imports. Expenditure on intermediate goods imports declined by 7.8 per cent, year-on-year, to US dollars 897 million in October 2013 mainly due to the decline in the importation of fuel and textiles. Expenditure on the importation of petroleum products declined in October 2013 due to the availability of sufficient stocks from previous months. Despite the strong growth in export of textiles and garments, there has been a steady decline in imports of textile and textile articles, reflecting improved backward linkages and higher value addition in the garment industry. Lower import of diamonds and precious stones and metals, rubber and articles also contributed to the decline in intermediate goods imports. However, fertilizer imports increased sharply by 110.7 per cent year-on-year, to US dollars 27 million in October 2013, mainly due to the low base in the corresponding period in 2012 and to ensure availability of adequate stocks for the upcoming Maha season. In October 2013, import expenditure on investment goods declined by 6.8 per cent, year-on-year, to US dollars 351 million mainly due to the decline in machinery and equipment imports by 16.5 per cent and a decline in transport equipment imports by 11.0 per cent although building materials imports increased by 13.4 per cent.

Meanwhile, expenditure on consumer goods imports recorded a 25.6 per cent growth, year-on-year, to US dollars 286 million in October 2013 with increases recorded in both food and non-food consumer goods categories. Vehicle imports, mainly contributed to the increase in consumer goods imports, recording a year-on-year increase of 150.7 per cent in October 2013. Dairy products, clothing and accessories, Oils and fats, medical and pharmaceuticals and household and furniture items also contributed to the increase in consumer goods imports.

Earnings from Tourism in the Services Account of the BOP

Tourist arrivals grew at a rate of 27.9 per cent, year-on-year to 102,805 in October 2013. Accordingly, tourist arrivals during the first ten months of the year amounted to 904,015 recording a year-on-year growth of 16.8 per cent. Earnings from tourism recorded a year-on-year growth of 26 per cent during the first ten months of 2013 to US dollars 996.2 million, compared to the cumulative earning of US dollars 790.5 million during the corresponding period of 2012. The top five sources of tourist arrivals in October 2013 were India, UK, Middle East, Germany and Maldives, accounting for about 50 per cent of tourist arrivals during the month.

Current Transfers in the BOP

Workers' remittances increased by 14.8 per cent, year-on-year, to US dollars 599.6 million in October 2013 from US dollars 522.1 million in October 2012. The cumulative inflow from workers' remittances increased by 11.8 per cent to US dollars 5,521.9 million during the first ten months of 2013 from the corresponding period of 2012. The growth in remittances continues to be driven by increased labour migration in the professional and skilled categories.

Capital and Financial Account of the BOP

FDI inflows during the first nine months of 2013 increased by 42 per cent to US dollars 870 million from US dollars 614.7 million in the corresponding period in 2012. During the first eleven months of 2013, the CSE received net foreign inflows of US dollars 176.5 million, while net inflows to the Government securities market amounted to US dollars 506 million. Long-term loans obtained by the government during the first nine months of 2013 amounted to US dollars 1,302 million, compared to US dollars 2,450 million obtained by way of long-term loans during the corresponding period in 2012. Meanwhile, inflows to Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) amounted to US dollars 1,548.3 million by end October 2013, of which US dollars 850 million were form the proceeds of bond issuances of LSBs.

Overall BOP Position

During the period from January to October 2013 the overall BOP is estimated to have recorded a surplus of US dollars 749 million compared to a deficit of US dollars 185 million recorded during the corresponding period of 2012. This improvement in the overall BOP was achieved despite the challenging global economic conditions during the year.

International Reserve Position

Sri Lanka's gross official reserves amounted to US dollars 7.1 billion by end October 2013, while total international reserves, which include foreign assets of commercial banks, amounted to US dollars 8.5 billion. In terms of months of imports, gross official reserves and total international reserves were equivalent to 4.5 and 5.4 months of imports, respectively, at end October 2013. Sri Lanka's gross official reserves were maintained at a satisfactory level during the first ten months of 2013, in spite of outflows on account of foreign debt service payments of US dollars 1,251 million and IMF-SBA payments of US dollars 369 million during this period.

Exchange Rate Behaviour

Based on cross currency exchange rate movements, the Sri Lanka rupee has appreciated against several major international currencies thus far during the year. During the period from end 2012 through 2 December 2013, the rupee appreciated against the Japanese yen by 15.4 per cent, the Indian rupee by 10.6 per cent and the Australian dollar by 10.0 per cent. The rupee has appreciated by 1.4 per cent against the US dollar since end August 2013, following a brief period from mid-June to end August during which the currency depreciated. Increased inflows to the banking sector, including the receipt of proceeds from the bond issuances by NSB and DFCC in September and October 2013, respectively, has helped maintain stability in the foreign exchange market. Meanwhile, the rupee recorded a modest depreciation of 3.0 per cent against the US dollar during the year-to date. Reflecting the cross currency movements, the rupee also depreciated against the euro by 5.8 per cent and the Pound sterling by 4.7 per cent during this period.

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

Category	October 2012 US$ mn	October 2013 US$ mn	Growth October (%)	Jan-Oct 2012 US$ mn	Jan- Oct 2013 US$ mn	Growth Jan- Oct (%)
Exports	**770.4**	**1,041.1**	**35.1**	**8,075.0**	**8,368.3**	**3.6**
Of which						
Agricultural Products	187.5	257.7	37.4	1,923.9	2,094.9	8.9
of which,						
Tea	116.0	146.8	26.6	1,147.6	1,249.7	8.9
Industrial Products	575.9	771.4	34.0	6,094.7	6,224.3	2.1
of which,						
Textiles and Garments	297.2	436.4	46.8	3,269.4	3,563.0	9.0
Rubber Products	62.9	94.5	50.1	707.2	710.4	0.5
Food, Beverages and Tobacco	19.1	25.5	33.2	232.3	192.4	-17.2
Mineral Products	6.1	10.8	76.3	48.3	38.8	-19.6
Imports	**1,579.1**	**1,535.4**	**-2.8**	**15,752.2**	**15,583.9**	**-1.1**
Of which						
Consumer Goods	227.8	286.2	25.6	2,519.5	2,619.1	4.0
of which,						
Food and Beverages	100.1	101.7	1.6	1,094.0	1,128.1	3.1
Other Consumer Goods	127.7	184.5	44.5	1,425.5	1,491.0	4.6
Intermediate Goods	972.6	896.9	-7.8	9,524.8	9,425.5	-1.0
of which,						
Fuel	374.3	367.7	-1.8	4,089.5	4,196.9	2.6
Textiles and Textile Articles	224.0	186.2	-16.9	1,868.6	1,688.9	-9.6
Investment Goods	376.4	350.8	-6.8	3,681.8	3,527.7	-4.2
of which,						
Machinery and Equipment	206.9	172.8	-16.5	1,807.2	1,868.5	3.4
Transport Equipment	59.8	53.2	-11.0	878.0	519.7	-40.8
Building Materials	109.6	124.2	13.4	992.8	1,134.8	14.3
Deficit in the Trade Account	**-808.8**	**-494.3**	**-38.9**	**-7,677.3**	**-7,215.7**	**-6.0**
Workers' Remittances	**522.1**	**599.6**	**14.8**	**4,940.8**	**5,521.9.3**	**11.8**
Foreign Direct Investments (b)				**614.7**	**870.1**	**42.0**
Portfolio Investments (Net)	**18.6**	**24.1**	**29.0**	**268.4**	**180.4**	
Earnings from Tourism	**79.5**	**113.1**	**42.3**	**790.5**	**996.2**	**26.0**
Inflows to LCBs and LSBs					**1,548.3**	
Inflows to the Government (c)	**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 nine months of the respective year
(c) Data available up to end September of each corresponding year. 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.