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 10.02.2014

External Sector Performance – December 2013

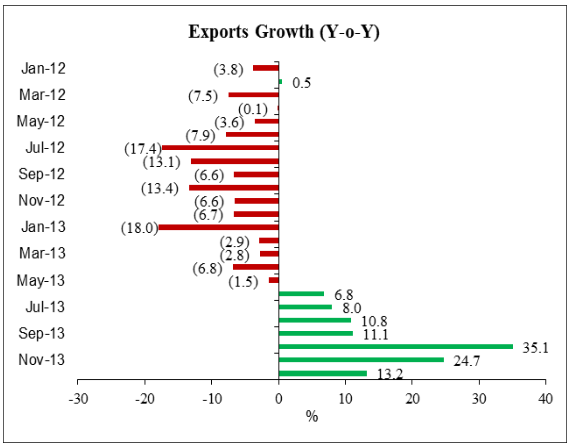
Overview

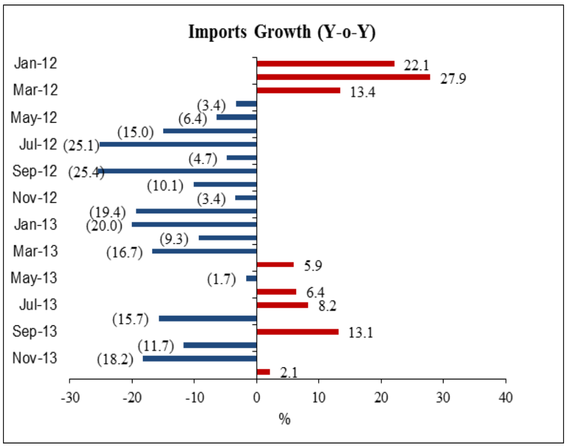
In December 2013, Sri Lanka's external sector strengthened further with continued inflows to both the Current Account and the Financial Account of the Balance of Payments (BOP). These inflows resulted in a significant increase in the overall balance as at end December 2013. Earnings from exports recorded an increase, while a notable reduction in imports was witnessed during the month, considerably reducing the trade deficit. Inflows on account of workers' remittances and tourist earnings also recorded the highest values during a month, while inflows to the Financial Account increased moderately during December.

Trade Account of the BOP

Earnings from exports, which surpassed US dollars 1 billion during the preceding two months continued to rise in December 2013, recording an increase of 13.2 per cent in December 2013, while expenditure on imports recorded a marginal increase of 2.1 per cent. As earnings from exports increased by more than the increase in expenditure on imports, the trade deficit contracted significantly by 12.9 per cent to US dollars 565 million in December 2013.

Exports in December 2013 increased to US dollars 986 million due to higher earnings from industrial and agricultural exports. Industrial exports, which account for more than three quarters of total export earnings, increased by 15.2 per cent on a year-on year basis to US dollars 741 million in December 2013 with continued growth in exports of textiles and garments. Earnings from export of textiles and garments grew by 26.9 per cent year-on-year to US dollars 454 million in December 2013. Export of garments to the EU and USA, which are the major export destinations for garments, grew by 24.9 per cent and 35.6 per cent, respectively in December 2013. Meanwhile, export of rubber products increased by 22.4 per cent to US dollars 94 million due to higher growth in surgical and other glove exports. Export of leather, travel goods and footwear also grew by 82.4 per cent, year-on-year. Apart from these, plastics and articles thereof, chemical products and ceramic products also recorded positive growth. However, earnings from the export of transport equipment, which include ships and boats declined significantly by 84.7 per cent due to the high base in 2012. Earnings from petroleum products exports also declined by 13 per cent, due to a decline in volumes, as the price was higher than in competitor countries. Earnings from agricultural exports rose by 11.4 per cent, year-on-year, to US dollars 242 million in December 2013, led by tea exports. Earnings from tea exports increased by 7.3 per cent to US dollars 148 million in December 2013, due to favourable prices that prevailed in international markets, despite a decline in export volumes. The average price of tea exported increased to US dollars 5.12 per kg in December 2013 from US dollars 4.47 per kg in December 2012. Earnings from coconut exports recorded a significant growth of 31.9 per cent led by an increase in kernel products due to both higher export volumes and prices. Earnings from the export of spices increased by 13.8 per cent to US dollars 26 million led by higher export volumes in pepper, cinnamon and nutmeg and mace exports. Export of seafood, minor agricultural products and vegetables also recorded healthy growth. However, in December 2013 rubber export earnings continued to decline by 7.7 per cent compared to December 2012, due to an increase in demand from the domestic industrial sector.





Expenditure on imports grew by 2.1 per cent to US dollars 1,551 million in December 2013, led by an increase in both consumer and intermediate goods imports. Expenditure on intermediate goods imports increased by 6.7 per cent, year-on-year, to US dollars 936 million in December 2013 mainly due to the increase in the importation of fuel. Expenditure on the importation of fuel increased by 21.4 per cent to US dollars 454 million in December 2013, due to higher expenditure on crude oil imports, despite the decline in refined products imports. The significant increase in the expenditure on crude oil imports by 90.8 per cent to US dollars 144 million in December was to ensure the availability of adequate supplies as there were less imports in November and no oil imports during October. Expenditure on imports of chemical products, fertilizer and agricultural inputs also increased in December 2013. However, despite the strong growth in export of textiles and garments, there has been a steady decline in the importation of textile and textile related articles, reflecting improved backward linkages and higher value addition in the garment industry. Imports of base metals and diamonds and precious stones also declined significantly. Expenditure on consumer goods imports recorded a 25.8 per cent growth, year-on-year, to US dollars 302 million in December 2013 with increases recorded in both food and non-food consumer goods categories. Vehicle imports contributed significantly to the increase in consumer goods imports, recording a year-on-year increase of 91.9 per cent in December 2013. Imports of medical and pharmaceutical products also increased by 29.5 per cent. In the food and beverages category, vegetables and dairy products also contributed to the increase in consumer goods imports. However, import expenditure on investment goods declined by 22.5

per cent, year-on-year, to US dollars 311 million, reflecting declines in all three major categories of imports. Expenditure on machinery and equipment imports declined by 25.3 per cent to US dollars 165 million. Expenditure on building materials imports declined by 11.3 per cent to US dollars 108 million mainly due to the decline in cement imports, while import of transport equipment declined by 35.4 per cent.

On a cumulative basis, earnings from exports during 2013 grew by 6.3 per cent to US dollars 10,386 million, while the latest revised data provided by Sri Lanka Customs as set out in Table 1, indicate that expenditure on imports amounted to US dollars 17,999 million in 2013. As a result, the cumulative trade deficit contracted by a significant 19.2 per cent to US dollars 7,613 million, during 2013 compared to 2012.

Table 1: Expenditure on Imports

US$ mn

	Provisional Data	Revised Data	Difference
Jan-May 13	7,581	7,581	No Revision
Jun-13	1,636	1,509	127
Jul-13	1,601	1,433	168
Aug-13	1,616	1,475	141
Sep-13	1,614	1,486	128
Oct-13	1,535	1,394	142
Nov-13	1,648	1,570	78
Dec-13	1,551	1,551	-
Jan-Dec 13	**18,783**	**17,999**	**783**

Sources: Sri Lanka Customs, CPC and LIOC

Earnings from Tourism in the Services Account of the BOP

Tourist arrivals recorded to 153,918 in December 2013, a growth of 25.9 per cent year-on-year, marking the first time tourist arrivals surpassed 150,000 in a single month. Accordingly, total tourist arrivals during the year grew by 26.7 per cent to 1,274,593, compared to the total of 1,005,605 in 2012. Earnings from tourism increased by 35 per cent to record a total earnings from tourism of US dollars 1.4 billion compared to US dollars 1 billion recorded in 2012, exceeding the initial estimates for the year. The increase in tourist arrivals continued in January 2014, with tourist arrivals amounting to 146,575, a 32.6 per cent increase year-on-year, compared to tourist arrivals of 110,543 in January 2013.

Current Transfers in the BOP

Workers' remittances also recorded the highest ever monthly remittances from Sri Lankan workers abroad during December 2013. Workers' remittances increased by 25 per cent, year-on-year, to US dollars 636 million in December 2013 from US dollars 553 million in December 2012. Accordingly, total cumulative inflows of workers' remittances during 2013 grew by 13 per cent to US dollars 6.8 billion from US dollars 6.0 billion in 2012.

Capital and Financial Account of the BOP

In 2013, net inflows to the CSE were US dollars 269.9 million, compared to US dollars 305 million recorded in 2012. This includes net inflows to the CSE in the form of secondary market transactions amounting to US dollars 178.7 million, inflows from rights issues amounting to US dollars 83.4 million, foreign investment in Initial Public Offerings (IPOs) amounting to US dollars 1.9 million and net foreign purchases of corporate debt amounting to US dollars 5.9 million. In the meantime, inflows to the Colombo Stock Exchange (CSE) listed companies remained moderate during January 2014, with a net inflow of US dollars 7.9 million.

In 2013, cumulative net foreign inflows to the government securities market amounted to US dollars 492.7 million. Further, Foreign Direct Investments (FDI), of which data is available on a quarterly basis, increased by 42 per cent to US dollars 870.1 million during the first nine months of 2013 from US dollars 614.7 million during the corresponding period in 2012. In addition, the government has obtained long-term loans amounting to US dollars 1,625 million by November 2013, compared to US dollars 1,723 million during the first eleven months of 2012. Further, inflows to Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) amounted to US dollars 1,548 million as at end November 2013. In the meantime, the net foreign inflows to the government securities market in January 2014 was US dollars 156 million, a significant improvement from the net outflow of US dollars 13 million recorded in December 2013.

Overall BOP Position

The overall BOP is estimated to have recorded a surplus of US dollars 991 million during 2013, significantly surpassing the initial estimates for the year. This was achieved despite the volatility in international financial markets which particularly affected emerging market economies in the region.

International Reserve Position

Sri Lanka's gross official reserves is estimated to have recorded US dollars 7.2 billion by end December 2013, and is estimated to be equivalent to around 4.5 months of imports. Total international reserves, which include foreign assets of commercial banks up to November 2013, the period for which data is available, amounted to US dollars 8.3 billion as at end November 2013, while total reserves were equivalent to 5.4 months of imports. Despite outflows on account of foreign debt service payments, IMF-SBA payments and other foreign outflows, an adequate level of reserves were maintained throughout 2013.

Exchange Rate Behaviour

As at end 2013, the rupee depreciated modestly by 2.7 per cent against the US dollar, 6.8 per cent against the euro and 4.7 per cent against the pound sterling. At the same time, the rupee appreciated significantly against the Japanese yen by 18.8 per cent, the Indian rupee by 10.2 per cent and the Australian dollar by 13.3 per cent.

So far during 2014, the rupee has remained relatively stable against the US dollar at around same levels recorded at the end of 2013. In the meantime, in terms of cross currency exchange rate movements, the Sri Lanka rupee appreciated against the euro (1.62 per cent), the pound sterling (1.09 per cent) and the Indian rupee (0.82 per cent), while depreciating against the Japanese yen (2.75 per cent) during the year so far up to 07 February 2014.

Table 2: A Summary of External Sector Performance – December 2013 (a)

Category	December 2012 US$ mn	December 2013 US$ mn	Growth December (%)	Jan-Dec 2012 US$ mn	Jan- Dec 2013 US$ mn	Growth Jan- Dec (%)
Exports	**871.0**	**986.1**	**13.2**	**9,773.5**	**10,386.2**	**6.3**
Of which						
Agricultural Products	217.4	242.1	11.4	2,331.5	2,581.1	10.7
of which,						
Tea	138.3	148.4	7.3	1,411.9	1,542.2	9.2
Industrial Products	643.7	741.2	15.2	7,371.2	7,741.4	5.0
of which,						
Textiles and Garments	357.8	453.9	26.9	3,991.1	4,508.3	13.0
Rubber Products	76.7	93.9	22.4	859.4	887.8	3.3
Food, Beverages and Tobacco	21.1	21.1	0.0	284.3	235.2	-17.3
Mineral Products	9.2	1.7	-81.5	61.3	51.6	-15.9
Imports	**1,519.8**	**1,551.1**	**2.1**	**19,190.2**	**17,999.2**	**-6.2**
Of which						
Consumer Goods	240.2	302.2	25.8	2,995.2	3,182.5	6.3
of which,						
Food and Beverages	112.1	137.4	22.5	1,304.4	1,368.1	4.9
Other Consumer Goods	128.0	164.9	28.8	1,690.8	1,814.4	7.3
Intermediate Goods	877.5	936.3	6.7	11,577.6	10,550.2	-8.9
of which,						
Fuel	373.7	453.6	21.4	5,044.6	4,308.2	-14.6
Textiles and Textile Articles	193.8	174.1	-10.2	2,266.4	2,045.8	-9.7
Investment Goods	401.3	310.9	-22.5	4,589.8	4,252.7	-7.3
of which,						
Machinery and Equipment	221.1	165.1	-25.3	2,356.0	2,221.9	-5.7
Transport Equipment	58.0	37.5	-35.4	991.9	667.8	-32.7
Building Materials	121.6	107.9	-11.3	1,237.4	1,357.2	9.7
Deficit in the Trade Account	**-648.9**	**-565.0**	**-12.9**	**-9,416.7**	**-7,613.0**	**-19.2**
Workers' Remittances	**553.2**	**636.3**	**15.0**	**5,985.3**	**6,762.7**	**13.0**
Foreign Direct Investments (b)				**614.7**	**870.1**	**41.5**
Portfolio Investments (Net)	**24.9**	**2.7**	**-89.2**	**305.2**	**269.9**	**-11.6**
Earnings from Tourism	**133.5**	**169.3**	**26.8**	**1,038.7**	**1,402.1**	**35.0**
Inflows to LCBs and LSBs					**1,548.3**	
Inflows to the Government (c) (d)	**178.2**	**190.0**	**6.6**	**5,009.6**	**4,066.1**	**-18.8**
of which,						
Treasury Bills and Bonds	62.5	76.1	21.8	2,160.1	2,405.0	11.3
International Sovereign Bonds				1,000.0		
Long term loans	110.8	102.2	-7.7	1,723.5	1,624.8	-6.7

(a) Provisional
(b) For the first nine months of the respective year
(c) Data available only up to November of each period
(d) Inflows to the Government include capital and current transfers to the Government, inflows from the sale of Treasury Bills and Treasury Bonds, International Sovereign Bonds and long-term loans of the Government.