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 25.03.2014

External Sector Performance – January 2014

Overview

The external sector strengthened further with the trade deficit contracting in January 2014. Earnings from exports increased, reflecting the ongoing recovery in the global economy while expenditure on imports also increased, albeit at a lower rate, driven mainly by the increase in intermediate goods imports. The contraction in the trade deficit, higher inflows on account of workers' remittances and an increase in tourist earnings contributed to reducing the current account deficit. These developments together with continued inflows to the financial account are expected to have resulted in a higher surplus in the Balance of Payments (BOP) during January 2014, compared to the corresponding period of 2013.

Trade Account of the BOP

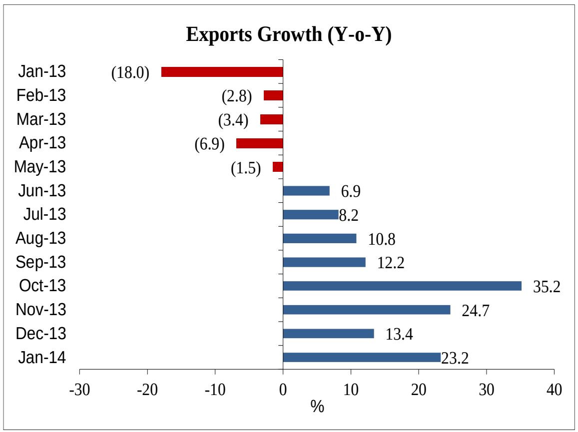
Earnings from exports increased substantially compared to the increase in expenditure on imports, resulting in the trade deficit continuing to contract in January 2014. On a year-on-year basis, earnings from exports in January 2014 increased significantly by 23.2 per cent to US dollars 898 million, while expenditure on imports increased by 7.9 per cent to US dollars 1,654 million. Accordingly, the trade deficit contracted by 5.9 per cent to US dollars 756 million.

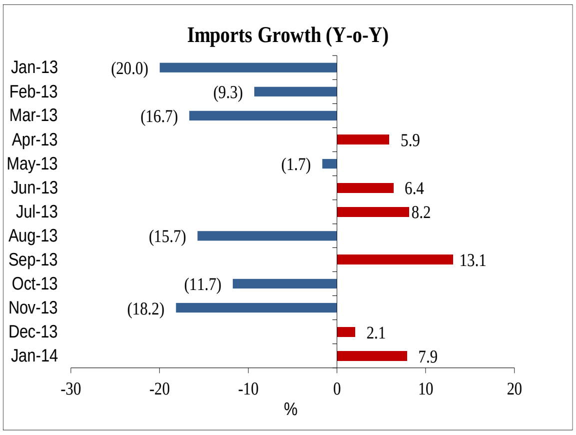
Export Performance

The significant growth in exports was led by improved performance in industrial exports followed by agricultural exports. Earnings from industrial exports, which account for more than three fourths of total export earnings increased by 23.6 per cent, year–on-year, to US dollars 692 million in January 2014, reflecting an increase in earnings from all major industrial export categories except petroleum products. Textiles and garments which is the main contributor to the growth in industrial exports grew by 23.4 per cent to US dollars 412 million. The EU and USA continued to be the major markets for textiles and garments of Sri Lanka representing around 85 per cent of total garment exports. In the meantime, a notable increase was also observed in exports of textiles and garments to non-traditional markets of 38.3 per cent reflecting greater diversification of markets in the industry. Earnings from export of food, beverages and tobacco increased more than two fold to US dollars 38 million reflecting improved performance in almost all categories. Exports of rubber products grew by 16.6 per cent to US dollars 73 million mainly due to the increase in exports of rubber tyres and compounded rubber, despite the decline in export earnings from surgical and other gloves. Earnings from gems grew substantially by 93.0 per cent, year-on-year, to US dollars 21 million. However, export earnings from petroleum products which mainly comprise bunkering and aviation fuel declined by 18.4 per cent to US dollars 33 million, due to a decline in prices despite the 10.6 per cent increase in export volumes. The intense competition in the region, particularly from India and Singapore caused the price of bunker fuel to steadily decline in the international market.

Agricultural exports grew by 21.6 per cent in January 2014, to US dollars 203 million, due to the healthy performance in tea and coconut products exports. Export earnings from tea increased by 14.9 per cent to US dollars 116 million mainly due to the significant improvement in tea prices in the international market. The average export price of tea increased to US dollars 5.31 per kg in January 2014 from US dollars 4.58

per kg in January 2013. Earnings from coconut product exports increased by more than two fold to US dollars 22.5 million, due to improved performance in both kernel and non-kernel coconut products in terms of both price and volume. In addition, export earnings from seafood and minor agricultural products also increased significantly in January 2014. However, earnings from exports of spices, which has become a significant contributor to agricultural export earnings in recent times, declined by 16.1 per cent in January 2014, mainly due to the decline in export earnings from cloves, despite the improved performance of nutmeg.





Import Performance

Expenditure on imports grew by 7.9 per cent, year-on-year, to US dollars 1,654 million in January 2014, led by an increase in intermediate goods followed by consumer goods. Expenditure on intermediate goods imports increased by 22.3 per cent, year-on-year, to US dollars 1,033 million mainly on account of the increase in fuel imports. Expenditure on fuel increased by 68.1 per cent, year-on-year, to US dollars 490 million in January 2014 due to higher import of crude oil (by 41.2 per cent), refined petroleum products (by 85.4 per cent) and coal (by 79.4 per cent). The increase in imports of refined petroleum products was due to greater dependence on thermal power generation as hydro power generation declined due to the prevailing adverse weather conditions. Expenditure on importation of cement clinkers, iron and steel, palm oil, paper and paper boards also increased in January 2014. Despite the strong growth in textiles and garment exports, imported inputs into the industry declined by 4.7 per cent. The continuing decline in imports of textiles and textile articles has been due to the usage of built up raw material stocks, backward integration and production of items at the higher end of the value chain. Import expenditure on diamonds and precious metals declined significantly due to lower imports of gold and diamonds on account of a reduction in both the price and the volume of gold and diamond imports. Expenditure on importation of fertilizer also declined in January 2014 reflecting the reduction in import quantity due to lower usage of fertilizer.

Expenditure on consumer goods imports increased marginally by 2.7 per cent, year-on-year, to US dollars 254 million in January 2014 due to the increase in non-food consumer goods. Vehicle imports, which mainly contributed to the increase in import expenditure on consumer goods, increased by 54 per cent to US dollars 46 million. Import expenditure on dairy products increased by 67.5 per cent in January 2014 mainly due to the significant increase in expenditure on milk powder owing to the increase in both prices and volumes. However, import expenditure on sugar and some home appliances such as televisions and fans significantly declined during the month.

Despite the growth in import expenditure on consumer and intermediate goods, expenditure on imports of investment goods declined by 16.8 per cent, to US dollars 366 million in January 2014, reflecting decreases in all major categories. Expenditure on machinery and equipment imports declined by 21.3 per cent mainly due to the reduction in imports of machinery and equipment parts, hand and machinery tools and telecommunication devices although imports of medical and laboratory equipment and textile industry machinery increased. Expenditure on importation of building materials declined by 11.0 per cent, mainly due to the reduction in imports of aluminium articles and asbestos. Import of transport equipment declined by 10.5 per cent due to the decline in imports of road vehicles, such as commercial cabs, ambulances and auto trishaws.

Earnings from Tourism in the Services Account of the BOP

Tourist arrivals grew at a rate of 32.6 per cent, year-on-year to 146,575 in January 2014. Earnings from tourism is estimated to have recorded a year-on-year growth of 32.2 per cent during January 2014 to US dollars 161.2 million, compared to the earning of US dollars 122.0 million during the corresponding month of 2013. The top five sources of tourist arrivals in January 2014 were India, UK, China, Russia and Germany, accounting for about 42 per cent of tourist arrivals during the month.

Current Transfers in the BOP

Workers' remittances increased by 10.6 per cent, year-on-year, to US dollars 555.5 million in January 2014 from US dollars 502.3 million in January 2013. The growth in remittances continues to be driven by increased labour migration in the professional and skilled categories.

Financial Account of the BOP

Foreign Direct Investment (FDI) inflows to the Board of Investment (BOI) registered companies during 2013 amounted to US dollars 1,391 million. Meanwhile, non-BOI companies received FDI inflows amounting to US dollars 22 million in 2013, in addition to US dollars 7 million received in the form of direct investments in listed companies in Colombo Stock Exchange (CSE) which are not registered with the BOI. Accordingly, the total FDI inflows in 2013 amounted to US dollars 1,420 million compared to US dollars 1,382 million in 2012. In terms of sector wise investments, infrastructure, manufacturing and services sectors received the highest FDIs in 2013. Long term loans obtained by the government during 2013 amounted to US dollars 1,748.1 million, compared to US dollars 1,869.1 million recorded during the corresponding period in 2012. Meanwhile, with the enhanced presence of local banks in the international securities market, inflows to the Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) increased resulting in a net increase in liabilities by US dollars 1,781 million in 2013. Further, net foreign inflows to the CSE in January 2014 amounted to US dollars 12.2 million of which inflows to the secondary market were US dollars 7.9 million, while inflows to primary market amounted to US dollars 4.3 million. Net inflows to the Government securities market during January 2014 amounted to US dollars 155 million, which comprised net inflows to Treasury bills and Treasury bonds amounting to US dollars 43.3 million and US dollars 111.7 million, respectively.

Sri Lanka successfully issued the sixth international sovereign bond of US dollars 1 billion in January 2014. With a comparatively low yield of 6.0 per cent per annum and a maturity of 5 years, the bond issue attracted an order book of over three times, reflecting continued investor confidence in the Sri Lanka's economy.

Overall BOP Position

During the month of January 2014, the overall BOP is estimated to have recorded a surplus of US dollars 733 million. This improvement in the overall BOP was achieved amidst the challenging global economic conditions prevailing during the period.

International Reserve Position

Sri Lanka's gross official reserves (including Asian Clearing Union balances) amounted to US dollars 7.5 billion by end December 2013, while total international reserves, which also include foreign assets of the banking sector, amounted to US dollars 8.6 billion. In terms of months of imports, gross official reserves and total foreign assets were equivalent to 5.0 and 5.7 months of imports, respectively, at end December 2013. Further, with the favourable developments observed in the external sector, Sri Lanka's gross official reserves amounted to US dollars 8.0 billion by end January 2014, while total international reserves, amounted to US dollars 9.2 billion. In terms of months of imports, gross official reserves and total foreign assets were equivalent to 5.3 and 6.1 months of imports, respectively, at end January 2014.

Exchange Rate Behaviour

The domestic foreign exchange market has remained relatively stable during the year so far, with the rupee marginally appreciating by 0.1 per cent against the US dollar during the period from end 2013 to 20 March 2014. Based on cross currency exchange rate movements, the Sri Lanka rupee appreciated against the Canadian dollar by 5.7 per cent, Chinese Renminbi by 2.6 per cent and the Singapore dollar by 0.6 per cent. In the meantime, the rupee depreciated against the Japanese yen by 2.3 per cent, the euro by 0.05 per cent, the pound sterling by 0.2 per cent, the Indian rupee by 1.4 per cent and the Australian dollar by 0.9 per cent during this period.

Table 1. Summary of External Sector Performance

Category	January 2013 US$ mn	January 2014(a) US$ mn	Growth January (%)
Exports	**728.7**	**898.0**	**23.2**
of which			
Agricultural Products	167.0	203.2	21.6
of which, Tea	101.0	116.1	14.9
Industrial Products	559.7	691.6	23.6
of which, Textiles and Garments	333.9	412.0	23.4
Rubber Products	62.8	73.2	16.6
Food, Beverages and Tobacco	12.4	38.1	207.5
Mineral Products	1.0	2.1	105.7
Imports	**1,532.2**	**1,653.9**	**7.9**
of which,			
Consumer Goods	246.8	253.6	2.7
of which, Food and Beverages	114.2	109.9	-3.8
Other Consumer Goods	132.6	143.7	8.4
Intermediate Goods	844.7	1,033.2	22.3
of which, Fuel	291.2	489.6	68.1
Textiles and Textile Articles	203.2	193.6	-4.7
Investment Goods	440.2	366.3	-16.8
of which, Machinery and Equipment	250.1	196.9	-21.3
Transport Equipment	52.7	47.2	-10.5
Building Materials	137.0	121.9	-11.0
Deficit in the Trade Account	**-803.6**	**-755.9**	**-5.9**
Workers' Remittances	**502.3(b)**	**555.5**	**10.6**
Portfolio Investments (Net)	**-8.5**	**12.2**	
Earnings from Tourism	**122.0(b)**	**161.2**	**32.2**
Inflows to the Government			
of which,			
Treasury Bills and Bonds	676.2	260.5	-46.3
International Sovereign Bonds	-	1,000.0	

(a) Provisional
(b) Revised