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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 – February 2014

Overview

The external sector further strengthened in February 2014. The trade deficit continued to narrow as a result of an increase in earnings from exports and a decline in expenditure on imports. Inflows on account of workers' remittances and earnings from tourism recorded an increase during the month contributing to the substantial reduction in the current account deficit. These developments together with continued inflows to the financial account resulted in a surplus in the Balance of Payments (BOP) upto February 2014.

Trade Account of the BOP

On a year-on-year basis, earnings from exports in February 2014 increased by 5.4 per cent to US dollars 841 million, while expenditure on imports declined by 6.2 per cent to US dollars 1,345 million. Accordingly, the trade deficit contracted by 20.7 per cent to US dollars 504 million. The cumulative trade deficit for the first two months of 2014 contracted by 12.5 per cent, as the growth in export earnings of 13.9 per cent outpaced the 1.1 per cent increase in import expenditure.

Export Performance

Earnings from exports increased mainly led by improved performance in agricultural exports which grew by 15.3 per cent, year-on-year, in February 2014 to US dollars 201 million. Healthy performance in tea and coconut product exports mainly contributed to the growth in agricultural exports. Export earnings from tea increased by 11.7 per cent to US dollars 116 million as a result of the increase in both the price and volume of tea exported. The average export price of tea increased by 8.9 per cent, to US dollars 5.16 per kg in February 2014 from US dollars 4.74 per kg in February 2013, while export volumes increased by 2.6 per cent, year-on-year. Earnings from coconut product exports increased by 60.3 per cent to US dollars 23 million, due to improved performance in both kernel and non-kernel coconut products in terms of both price and volume. Export earnings from minor agricultural products and seafood also increased significantly by 124.9 per cent and 37.1 per cent, respectively, in February 2014. However, earnings from export of spices declined by 23.6 per cent, mainly due to the decline in export of pepper and cloves, owing to unavailability of stocks during the non-harvesting period.

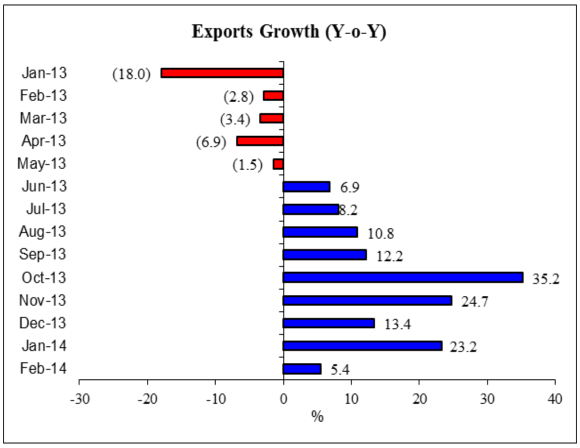
Earnings from industrial exports, which account for more than three fourths of total export earnings increased by 2.5 per cent, year–on-year, to US dollars 637 million in February 2014, with earnings from export of textiles and garments growing by 6.6 per cent to US dollars 396 million. A notable increase of 35.7 per cent was observed in export of garments to non-traditional markets, reflecting greater diversification of markets in the industry. Garment exports to USA and to the EU increased by 8.8 per cent and 8.7 per cent, respectively. Export of rubber products grew by 6.3 per cent to US dollars 70 million mainly due to the increase in export of rubber tyres, although export earnings from rubber gloves declined during the month. Export earnings from chemical products, petroleum products, food, beverages and tobacco also increased in February 2014. However, earnings from gems, diamonds and jewellery declined by 14.1 per cent, year-on-year, to US dollars 26 million, mainly due to the substantial decline in diamond exports as a result of low global demand.

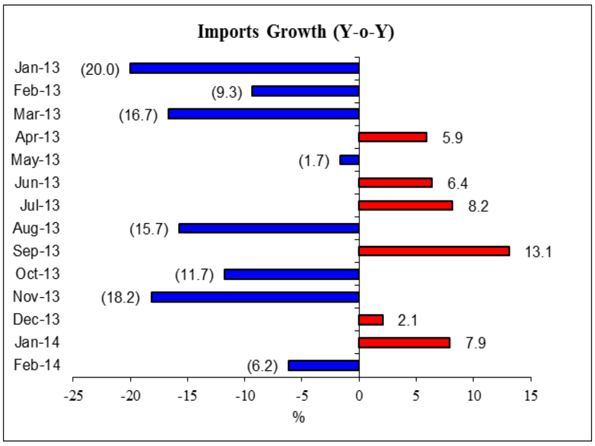
Import Performance

Expenditure on imports declined by 6.2 per cent, year-on-year, to US dollars 1,345 million in February 2014, as a result of a decline in both intermediate and investment goods. Expenditure on intermediate goods imports declined by 4.7 per cent, year-on-year, to US dollars 827 million mainly due to the decline in import of diamonds and precious stones and precious metals including gold by 82 per cent. Despite the strong growth in textiles and garment exports, textiles and textile article imports declined by 6.4 per cent, reflecting higher domestic value addition in the garment industry. Expenditure on fuel increased marginally by 0.6 per cent, year-on-year, to US dollars 421 million in February 2014 due to the increase in refined petroleum products by 51.3 per cent despite the decline in import of crude oil. The increase in imports of refined petroleum products was due to greater dependence on thermal power generation as hydropower generation declined due to adverse weather conditions. The high growth rate in the import of wheat and maize recorded during the month was mainly due to the low base. Despite the reduction in prices, expenditure on importation of fertilizer increased by 133.3 per cent in February 2014, due to the high usage of fertilizer for paddy and other crops during the Yala season as well as the low base.

Expenditure on imports of investment goods declined by 17.7 per cent, to US dollars 293 million in February 2014, mainly due to the decline in transport equipment imports which declined by 53 per cent. A reduction in imports of almost all sub categories contributed to the contraction in transport equipment import in February. Import expenditure on building materials declined by 21.8 per cent due to lower imports of iron and steel, cement and mineral products. However, expenditure on machinery and equipment imports increased by 2.7 per cent, due to the increase in import of engineering equipment, agricultural machinery and medical and laboratory equipment, although import of electronic equipment, telecommunication devices and textile industry machinery declined.

Despite the decline in import expenditure on intermediate and investment goods, import of consumer goods increased by 7.2 per cent, year-on-year, to US dollars 224 million in February 2014, reflecting increases in both food and non-food consumer goods imports. Import of food and beverages increased by 1.4 per cent with import of dairy products growing by 34.6 per cent, on account of the increase in the price of milk powder in the international market. However, imports of many sub categories including oil and fats, seafood, vegetables and sugar and confectioneries declined in February 2014. Non-food consumer goods imports increased by 12 per cent, mainly due to the significant increase in vehicle imports by 61.4 per cent. However, import expenditure on home appliances declined significantly during the month.





Earnings from Tourism in the Services Account of the BOP

Tourist arrivals recorded a growth of 24.5 per cent, year-on–year to 141,878 in February 2014 from 113,968 in February 2013. Tourist earnings are estimated to have increased by 33.6 per cent to US dollars 205 million in February 2014, compared to US dollars 153.4 million in February 2013. The top five sources of tourist arrivals in February 2014 were India, UK, Germany, France and China, accounting for about 45 per cent of tourist arrivals during the month. Meanwhile, tourist arrivals in March 2014 have increased by 17.5 per cent, year-on-year, to 133,048 from 113,208 recorded in March 2013. Moreover, tourist earnings increased by 26.2 per cent to US dollars 192.2 million in March 2014, from US dollars 152.4 million in March 2013.

Current Transfers in the BOP

In February 2014, workers' remittances increased by 6.9 per cent to US dollars 502 million from US dollars 469.4 million in February 2013. Accordingly, cumulative inflows of workers' remittances during the first two months of 2014 amounted to US dollars 1,057.5 million, a rise of 8.8 per cent from the corresponding period of 2013.

Financial Account of the BOP

Net inflows to the government securities market upto 21 April 2014 amounted to US dollars 123.3 million, comprising net inflows to Treasury bills and Treasury bonds amounting to US dollars 99.8 million and US dollars 23.5 million, respectively. The investment threshold for foreign investments in government securities has been fully utilized and it has resulted in relatively lower levels of foreign investments in government securities market. In the meantime, inflows to the government on account of long term loans upto February 2014 were US dollars 119.9 million compared to US dollars 300.7 million during the corresponding period of 2013. Foreign investments in the Colombo Stock Exchange (CSE) recorded a cumulative net outflow of US dollars 55.9 million upto 21 April 2014 including primary market inflows upto end February 2014 amounting to US dollars 4.3 million. In 2013, Foreign Direct Investments (FDI) including foreign loans amounted to US dollars 1,421 million, compared to US dollars 1,382 million in 2012 while, inflows to the Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) increased resulting in a net increase of US dollars 1,781 million in 2013.

Sri Lanka also successfully issued its seventh international sovereign bond in April 2014. The 5-year international sovereign bond of US dollars 500 million was issued at a yield of 5.125 per cent per annum. The issue represents the balance of the US dollars 1,500 million approved international sovereign bond programme for 2014, of which US dollars 1 billion was issued in January 2014 at a yield of 6.0 per cent per annum.

Overall BOP Position

The overall BOP is estimated to have recorded a surplus of US dollars 805.7 million during the first two months of 2014, compared to a surplus of US dollars 107.3 million recorded during the corresponding period of 2013.

International Reserve Position

By end February 2014, Sri Lanka's gross official reserves amounted to US dollars 8.3 billion, while total foreign assets, which include foreign assets of the banking sector amounted to US dollars 9.4 billion. In terms of months of imports, gross official reserves were equivalent to 5.5 months of imports at end February 2014, while total foreign assets were equivalent to 6.3 months of imports. It is noteworthy that a healthy level of reserves was maintained during the first two months of 2014, despite outflows on account of foreign debt service payments of US dollars 272 million and IMF-SBA payments of US dollars 77 million.

Exchange Rate Behaviour

During the year so far (up to 22 April 2014) the rupee remained relatively steady against the US dollar, marginally appreciating by 0.11 per cent. In terms of cross currency exchange rate movements, the Sri Lanka rupee appreciated against the euro by 0.16 per cent, the Canadian dollar by 3.51 per cent, Chinese renminbi by 2.91 per cent while depreciating against the Japanese yen by 2.07 per cent, the pound sterling by 1.72 per cent, the Australian dollar by 4.51 per cent and the Indian rupee by 2.03 per cent.

Table 1. A Summary of External Sector Performance – February 2014 (a)

Category	February 2013 US$ mn	February 2014 US$ mn	Growth February (%)	Jan-Feb 2013 US$ mn	Jan- Feb 2014 US$ mn	Growth Jan- Feb (%)
Exports	**797.7**	**841.0**	**5.4**	**1,526.4**	**1,739.0**	**13.9**
Of which						
Agricultural Products	174.5	201.2	15.3	341.5	404.3	18.4
of which,						
Tea	103.4	115.6	11.7	204.5	231.7	13.3
Industrial Products	621.0	636.5	2.5	1,180.7	1,328.2	12.5
of which,						
Textiles and Garments	371.6	396.2	6.6	705.5	808.2	14.6
Rubber Products	66.1	70.2	6.3	128.8	143.4	11.3
Food, Beverages and Tobacco	16.1	17.5	8.7	28.5	55.6	95.2
Mineral Products	1.4	2.1	54.1	2.4	4.2	76.3
Imports	**1,433.2**	**1,344.7**	**-6.2**	**2,965.5**	**2,998.6**	**1.1**
Of which						
Consumer Goods	208.7	223.8	7.2	455.5	477.4	4.8
of which,						
Food and Beverages	93.7	95.0	1.4	208.0	204.9	-1.5
Other Consumer Goods	115.0	128.8	12.0	247.6	272.5	10.1
Intermediate Goods	868.4	827.4	-4.7	1,713.1	1,860.6	8.6
of which,						
Fuel	418.5	420.9	0.6	709.7	910.5	28.3
Textiles and Textile Articles	163.0	152.5	-6.4	366.1	346.1	-5.5
Investment Goods	355.6	292.6	-17.7	795.8	658.8	-17.2
of which,						
Machinery and Equipment	166.5	171.1	2.7	416.7	368.0	-11.7
Transport Equipment	84.2	39.6	-53.0	136.9	86.8	-36.6
Building Materials	104.6	81.8	-21.8	241.5	203.7	-15.7
Deficit in the Trade Account	**-635.5**	**-503.7**	**-20.7**	**-1,439.1**	**-1,259.6**	**-12.5**
Workers' Remittances	**469.4(b)**	**502.0**	**6.9**	**971.7**	**1,057.5**	**8.8**
Earnings from Tourism	**153.4(b)**	**205.0**	**33.6**	**302.2**	**416.8**	**37.9**
Portfolio Investments (Net)	**10.6**	**-38.7**		**2.1**	**-26.6**	
Inflows to the Government (c)	**719.1**	**202.5**	**-71.8**	**1,545.7**	**1,503.3**	**-2.7**
of which,						
Treasury Bills and Bonds	567.6	120.5	-78.8	1,243.9	381.0	-69.4
International Sovereign Bonds					1000.0	
Long term loans	150.8	82.0	-45.6	300.7	119.9	-60.1

(a) Provisional
(b) Revised
(c) 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.