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Press Release

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External Sector Performance - March 2014

Overview

Favourable developments in the external sector continued in March 2014, with a noticeable contraction in the trade deficit. On a cumulative basis, earnings from exports recorded a notable increase, while import expenditure witnessed a moderate growth reducing the trade deficit substantially during the first quarter of 2014. As a result of an increase in inflows from workers' remittances, along with the significant growth in earnings from tourism, the current account deficit in the first quarter of 2014 is expected to have narrowed substantially. These developments together with continued inflows to the financial account are estimated to have resulted in a higher surplus in the Balance of Payments (BOP) during the first quarter of 2014, compared to the corresponding period of 2013.

Trade Account of the BOP

Sri Lanka's external trade improved further in March 2014 continuing the positive development from the second half of 2013. Earnings from exports increased significantly by 28.6 per cent, year-on-year, to US dollars 1,070 million in March 2014. This was the highest monthly export value ever recorded. Expenditure on imports increased by 8.2 per cent to US dollars 1,672 million in March 2014.

Accordingly, the cumulative trade deficit during the first three months of 2014 contracted by 13.5 per cent, year-on-year, to US dollars 1,862 million.

Export Performance

Significant expansion in all major export categories contributed to the high growth in exports in March 2014. The largest contribution to overall growth came from industrial exports, which grew by 25.7 per cent, year-on-year, to US dollars 779 million. Almost all sub categories of industrial exports grew in March 2014 except gems, diamonds and jewellery and petroleum products. As the leading driver of the growth in industrial exports, earnings from export of textiles and garments grew by 32.6 per cent, year-on-year, to US dollars 457 million in March 2014 reflecting significant increases in exports to both traditional and non-traditional markets. Export earnings from transport equipment increased by more than six fold due to the export of ships, boats and floating structures. Rubber product exports also increased by 10.9 per cent, mainly due to an increase in export of rubber tyres. Meanwhile, earnings from gems, diamonds and jewellery declined by 21.9 per cent, year-on-year, due to the substantial decline in diamond exports as a result of low global demand. Export earnings from petroleum products which mainly comprise bunkering and aviation fuel declined by 14.4 per cent, due to a decline in export volumes despite the increase in prices.

Earnings from agricultural exports grew by 22.4 per cent, year-on-year, in March 2014 to US dollars 257 million, mainly due to the healthy performance in export of tea and coconut products. Export earnings from tea increased by 20.3 per cent to US dollars 155 million, recording a historically high monthly value. This was a combined outcome of a 14.3 per cent increase in export volume and an increase in the average export price of one kilogram of tea by 5.2 per cent to US dollars 5.02. Earnings from coconut product exports increased by 106.9 per cent 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 by 87.7 per cent and 5.6 per cent, respectively, in March 2014. However, earnings from export of spices declined by 20.1 per cent, mainly due to the decline in

export of pepper and cloves, despite the increase in cinnamon exports. Further, earnings from rubber exports declined by 32.1 per cent, year-on-year, in March 2014, due to significant declines in both export volumes and prices.

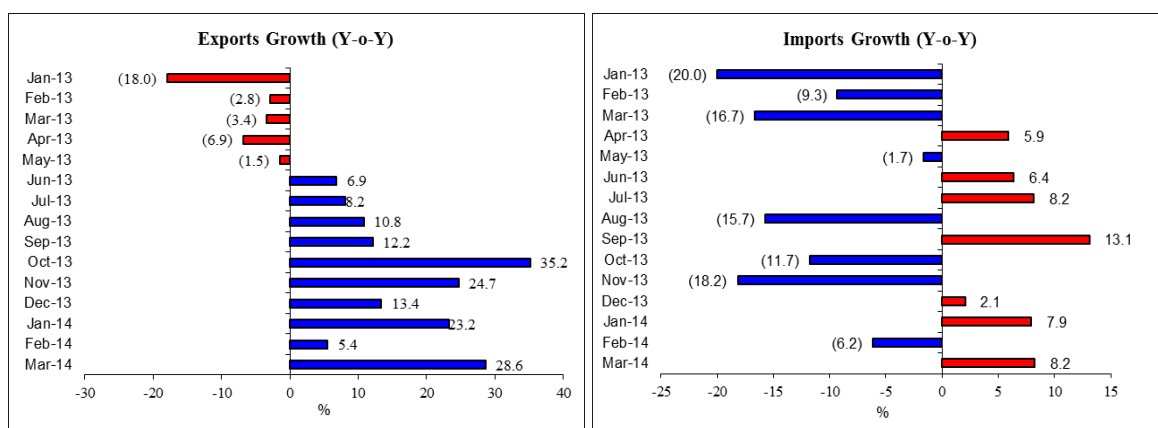
Import Performance

Expenditure on imports increased by 8.2 per cent, year-on-year, to US dollars 1,672 million in March 2014, reflecting increases in intermediate and consumer goods imports. Expenditure on intermediate goods imports increased by 12.7 per cent, year-on-year, to US dollars 1,045 million with notable increases in fuel, textile and textile articles and fertilizer imports. Import expenditure on fuel increased substantially by 19.1 per cent due to increases in crude oil and refined petroleum products imports by 65.9 per cent and 11 per cent, respectively, owing to higher usage of thermal power generation and an increase in petroleum prices in the international market compared to the corresponding period in the previous year. Import expenditure on textile and textile articles also increased by 40 per cent, year-on-year to US dollars 182 million in line with the continuous growth of textile and garment exports from Sri Lanka. Despite the reduction in prices, expenditure on importation of fertilizer increased in March 2014, due to the high usage of fertilizer for paddy and other crops during the Yala season as well as the low base. Meanwhile, continuing the declining trend observed in the recent past, import expenditure on diamonds and precious stones and precious metals including gold declined by 68.5 per cent. Import of wheat and maize, base metals and mineral products also declined during the month.

Import expenditure on consumer goods increased by 18.5 per cent, year-on-year, to US dollars 303 million in March 2014, reflecting increases in both food and non-food consumer goods imports. Import of food and beverages increased by 8.9 per cent, due to a substantial increase in import expenditure on milk powder and sugar, on account of the increase in the price of milk powder and sugar in the international market. However, import of many sub categories including oils and fats, seafood, spices, fruit and cereals and milling industry products declined during the period under review. In March 2014, non-food consumer goods imports increased by 27.3

per cent, mainly due to the significant increase in vehicle imports by 59.3 per cent and clothing and accessories imports by 56.6 per cent.

Expenditure on imports of investment goods declined by 10.5 per cent, to US dollars 323 million in March 2014, mainly due to the decline in import of building materials and transport equipment. Import of building materials declined by 24.2 per cent, led by declines in import of cement as well as iron and steel. Import expenditure on transport equipment decreased by 17.4 per cent with all sub categories recording declines. Expenditure on import of machinery and equipment increased by 2.2 per cent, due to the increase in import of engineering equipment and textile industry machinery, although import of many sub categories including electronic equipment, telecommunication devices and office machines declined.



Earnings from Tourism in the Services Account of the BOP

Tourist arrivals grew at a rate of 39.5 per cent, year-on-year to 112,631 in April 2014. Earnings from tourism in March and April 2014 increased by 26.2 per cent and 49.8 per cent, year-on-year, to US dollars 192.2 million and US dollars 162.7 million respectively. The top five sources of tourist arrivals in March 2014 were India, UK, Germany, China and Russia, accounting for about 44 per cent of total tourist arrivals during the month.

Current Transfers in the BOP

The cumulative inflows of workers' remittances during first three months of this year grew by 12.2 per cent to US dollars 1,663.4 million from US dollars 1,483.1 million in the corresponding period in 2013, driven by an increase in labour migration in the professional and skilled categories.

Financial Account of the BOP

Long term loans obtained by the government during the first quarter of 2014 amounted to US dollars 657.3 million, compared to US dollars 443.4 million recorded during the corresponding period in 2013. Net cumulative inflows to the government securities market during January to March 2014 amounted to US dollars 92.9 million. Although the Colombo Stock Exchange (CSE) recorded a net outflow of US dollars 21.5 million in March 2014, total foreign purchases in the months of April and up to 22 May amounting to US dollars 146.8 million, resulted in a net foreign inflow of US dollars 15.9 million by 22 May 2014.

Overall BOP Position

During the period January to March 2014 the overall BOP is estimated to have recorded a surplus of US dollars 828.3 million compared to a surplus of US dollars 153.6 million recorded during the corresponding period of 2013.

International Reserve Position

Sri Lanka's gross official reserves amounted to US dollars 8.1 billion by end March 2014, while total international reserves, which include foreign assets of the banking sector, amounted to US dollars 9.5 billion. In terms of months of imports, gross official reserves and total reserves were equivalent to 5.3 and 6.3 months of imports, respectively at end March 2014. Despite outflows on account of foreign debt service payments, IMF-SBA payments and other foreign outflows, an adequate level of reserves were maintained throughout the first quarter of 2014.

Exchange Rate Behaviour

The rupee has remained relatively stable against the US dollar marginally appreciating by 0.31 per cent during the year up to 23 May. Based on cross currency exchange rate movements, the Sri Lanka rupee has appreciated against several other major international currencies such as the euro by 1.42 per cent and the Chinese renminbi by 3.22 per cent, while depreciating against the pound sterling by 1.94 per cent, the Japanese yen by 2.72 per cent and the Indian rupee by 5.58 per cent.

Table 1. A Summary of External Sector Performance - January - March 2014 (a)

Category	March 2013 US\$ mn	March 2014 US\$ mn	Growth March (%)	Jan-Mar 2013 US\$ mn	Jan- Mar 2014 US\$ mn	Growth Jan- Mar (%)
Exports	832.0	1,069.9	28.6	2,358.4	2,808.9	19.1
Of which						
Agricultural Products	209.7	256.7	22.4	551.2	661.0	19.9
of which,						
Tea	129.1	155.3	20.3	333.6	387.0	16.0
Industrial Products	619.5	778.5	25.7	1,800.2	2,106.7	17.0
of which,						
Textiles and Garments	344.5	456.7	32.6	1,050.0	1,264.8	20.5
Rubber Products	73.1	81.0	10.9	201.9	224.4	11.2
Food, Beverages and Tobacco	24.3	24.6	1.2	52.7	80.1	51.9
Mineral Products	1.7	33.4	1,917.9	4.0	37.6	831.5
Imports	1,544.8	1,672.1	8.2	4,510.3	4,670.7	3.6
Of which						
Consumer Goods	255.7	303.0	18.5	711.2	780.4	9.7
of which,						
Food and Beverages	122.1	133.0	8.9	330.1	337.9	2.4
Other Consumer Goods	133.6	170.0	27.3	381.2	442.5	16.1
Intermediate Goods	927.3	1,045.4	12.7	2,640.4	2,906.0	10.1
of which,						
Fuel	384.2	457.6	19.1	1,094.0	1,368.1	25.1
Textiles and Textile Articles	130.1	182.1	40.0	496.2	528.2	6.4
Investment Goods	360.8	323.1	-10.5	1,156.6	981.9	-15.1
of which,						
Machinery and Equipment	175.5	179.3	2.2	592.2	547.3	-7.6
Transport Equipment	50.8	41.9	-17.4	187.7	128.7	-31.4
Building Materials	134.0	101.5	-24.2	375.5	305.2	-18.7
Deficit in the Trade Account	-712.8	-602.2	-15.5	-2,151.9	-1,861.8	-13.5
Workers' Remittances	511.4(b)	605.9	18.5	1,483.1	1,663.4	12.2
Earnings from Tourism	152.4(b)	192.2	26.2	454.5	609.0	34.0
Portfolio Investments (Net)	42.4	-21.5		44.5	-48.0	
Inflows to the Government (c)	340.2	654.4	92.4	1,885.9	2,231.6	18.3
of which,						
Treasury Bills and Bonds	193.1	188.8	-2.2	1,437.0	569.9	-60.3
International Sovereign Bonds					1,000	
Long term Loans	142.7	464.1	225.2	443.4	657.3	48.3

(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.