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Press Release

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External Sector Performance - May 2014

Overview

The trade deficit continued to improve in May 2014, strengthening the performance in the external sector. Earnings from exports increased, while expenditure on imports reduced driven mainly by the reduction in fuel imports. This outcome, together with higher inflows on account of workers' remittances, increased tourist earnings and continued inflows to the financial account resulted in a healthy surplus in the Balance of Payments (BOP) during the first five months of 2014, compared to the corresponding period of 2013.

Trade Account of the BOP

On a year-on-year basis, earnings from exports in May 2014 increased by 11.1 per cent to US dollars 882 million, while expenditure on imports declined by 17.6 per cent to US dollars 1,275 million. Accordingly, the trade deficit contracted for the eighth consecutive month in May 2014, by 47.9 per cent to US dollars 393 million. The cumulative trade deficit for the first five months of 2014 contracted by 19.3 per cent, as a result of a 15.7 per cent growth in export earnings and a 1.5 per cent decline in import expenditure.

Export Performance

Expansion in all major export categories contributed to the growth in exports in May 2014. However, the largest contribution to the overall growth came from industrial exports followed by agricultural exports. Earnings from industrial exports grew by 7.7 per cent, year-on-year, to US dollars 639 million reflecting positive performance in almost all sub categories. As the leading driver of growth in industrial exports, textiles and garment exports grew by 14.5 per cent, year-on-year, to US dollars 365 million in May 2014, as a result of significant increases in exports to both traditional and non-traditional markets. Sri Lanka's apparel industry has been increasing its value addition through strategies such as backward integration, establishment of brands and improved reputation as a quality and timely apparel supplier. Rubber product exports also increased by 14.6 per cent to US dollars 78 million mainly due to an increase in export of rubber tyres, the main rubber product of Sri Lanka. Raw rubber prices fell to a 5 year low in May 2014 benefitting manufacturers of rubber products. Earnings from export of machinery and mechanical appliances, food beverages and tobacco and leather products also contributed to the growth in industrial product exports. Meanwhile, earnings from transport equipment and petroleum products declined by 77.6 per cent and 40.0 per cent, respectively mainly due to the high base in the previous period.

Earnings from agricultural exports rose by 21.2 per cent, year-on-year, to US dollars 240 million in May 2014 with significant contributions from tea and coconut. Earnings from export of coconut increased sharply by 91.3 per cent to US dollars 30 million led by kernel product exports. The favourable developments in coconut exports during 2014 reflect the impact of favourable weather conditions in the previous year on coconut production. Earnings from tea exports recorded a healthy growth of 9.7 per cent to US dollars 141 million in May 2014. This was a combined outcome of 5.5 per cent increase in tea export volumes and a 4.0 per cent increase in the average export price of tea. However, the average export price of tea declined continuously during the first five months of 2014 from the highest price recorded in January 2014. Export earnings from minor agricultural products and seafood also

contributed significantly to the growth in agricultural exports. However, in May 2014, earnings from rubber exports contracted by 21.0 per cent compared to May 2013, due to the continuous decline in export volumes and prices, owing to low demand from major rubber consumers and increased production from new plantations in Vietnam, Thailand and Indonesia.

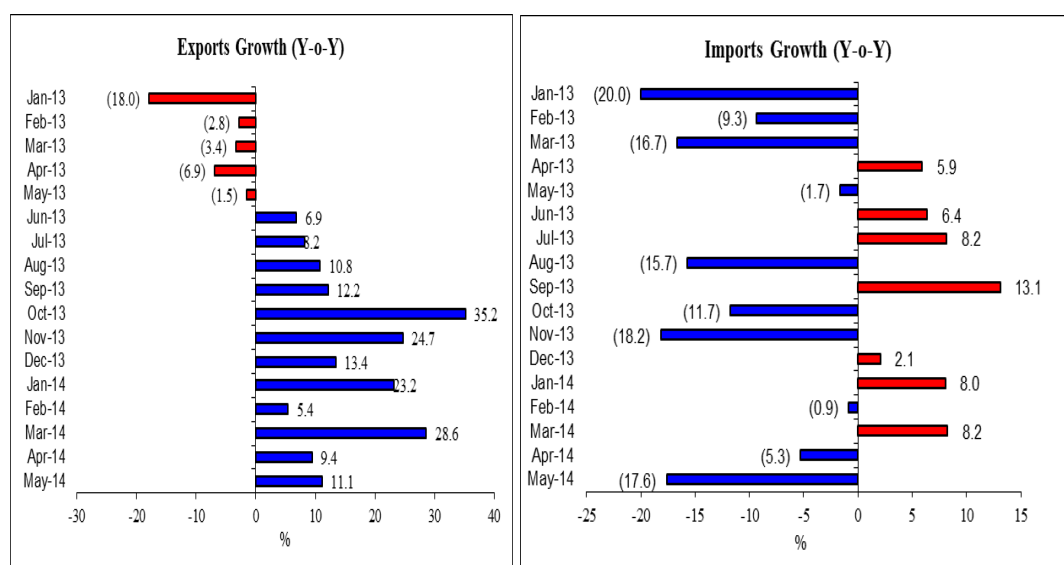
Import Performance

Expenditure on imports declined by 17.6 per cent to US dollars 1,275 million in May 2014, due to the significant decline in expenditure on imports of intermediate and investment goods. Expenditure on imports of intermediate goods declined by 21.0 per cent, year-on-year, to US dollars 717 million in May 2014 mainly due to the significant declines in importation of crude oil, diamonds and gold. Negligible imports of gold in May contributed to the decline in import of gold, precious stones and metals by 87.0 per cent to US dollars 13.2 million in May 2014. Expenditure on fuel imports showed a temporary decline of 35.4 per cent in May 2014, mainly due to the delay in unloading crude oil imports during the month due to maintenance activities in oil pipelines. Import expenditure on wheat and unmanufactured tobacco also declined by 42.8 per cent and 75.8 per cent, respectively, contributing to the decline in intermediate goods imports. However, import expenditure on textiles and textile articles, fertilizers and paper and paperboard articles grew during the month under review. Imports of textile and textile articles, grew by 11.2 per cent, year-on-year, indicating higher export orders for apparel products in the coming months. Further, fertilizer imports increased by 36.7 per cent, year-on-year, to US dollars 32 million in May 2014, mainly due to the increased usage of fertilizer for paddy and other crops during the Yala season and upcoming Maha season.

Expenditure on imports of investment goods declined by 25.2 per cent, to US dollars 280 million in May 2014 due to declines in imports of all major categories of investment goods, reflecting the build-up of inventory stocks in the recent past. Expenditure on machinery and equipment imports declined by 34.4 per cent, due to the decline in almost all categories of machinery and equipment except textile industry machinery, audio and video related apparatus and hand and machinery

tools. Import expenditure on building materials declined by 8.7 per cent mainly due to lower imports of iron steel and cement. Transport equipment declined by 20.5 per cent due to a reduction in imports of almost all sub categories except buses and parts of aircrafts.

Meanwhile, expenditure on consumer goods imports recorded a 4.2 per cent growth, year-on-year, to US dollars 278 million in May 2014 recording increases in both food and non-food consumer goods categories. With respect to food imports, expenditure on cereals and milling industry products increased significantly, mainly due to a substantial increase in rice imports. However, import expenditure on vegetables, oils and fat, seafood and fruits declined in May 2014. Imports of non-food consumer goods, increased marginally by 0.4 per cent, mainly due to a 41.4 per cent increase in import of clothing and accessories and a 10.3 per cent increase in import of personal motor vehicles. However, import of home appliances and medical and pharmaceuticals declined in May 2014.



Earnings from Tourism in the Services Account of the BOP

The cumulative growth in tourist arrivals up to May 2014 was recorded at 26.5 per cent to 624,178. On a cumulative basis, earnings from tourism recorded an impressive growth of 35.8 per cent to US dollars 901.8 million during the first five

months of 2014. Meanwhile, June tourist arrivals grew at a rate of 14.3 per cent, year-on-year, to 103,175, while earnings from tourism increased by 22.7 per cent to US dollars 149.1 million. The top five sources of tourist arrivals in June 2014 were India, China, UK, Maldives and Australia accounting for about 47 per cent of tourist arrivals during the month.

Current Transfers in the BOP

Workers' remittances increased by 8.8 per cent, year-on-year, to US dollars 557.5 million in May 2014 from US dollars 512.4 million in May 2013. Workers' remittances during the period from January to May 2014 grew by 10.5 per cent to US dollars 2,774.8 million compared to US dollars 2,510.7 million recorded in the corresponding period in 2013. The growth in remittances continues to be driven by increased labour migration in the professional and skilled categories.

Financial Account of the BOP

Net inflows to the Government securities market from January to end May 2014 amounted to US dollars 229.4 million, which comprised net inflows to Treasury bills and Treasury bonds amounting to US dollars 92.3 million and US dollars 137.1 million, respectively. Long term loans obtained by the government during 2014 upto end May 2014 amounted to US dollars 820.9 million, compared to US dollars 685.3 million recorded during the corresponding period in 2013. Meanwhile, the inflows to the Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) during the first five months in 2014 amounted to US dollars 93.8 million. Further, net foreign inflows to the Colombo Stock Exchange (CSE) in May 2014 amounted to US dollars 69.9 million compared to US dollars 35.4 million recorded in the corresponding period in 2013. On a cumulative basis, the net inflows to the CSE upto end May 2014 amounted to US dollars 19.3 million.

Overall BOP Position

During the year upto end May 2014, the overall BOP is estimated to have recorded a surplus of US dollars 1,667.6 million compared to a surplus of US dollars 126.5 million recorded during the corresponding period of 2013.

International Reserve Position

By end May 2014, Sri Lanka's gross official reserves amounted to US dollars 8.8 billion, while total foreign assets, which include foreign assets of the banking sector amounted to US dollars 10.2 billion. In terms of months of imports, gross official reserves were equivalent to 5.9 months of imports at end May 2014, while total foreign assets were equivalent to 6.9 months of imports. It is noteworthy that a healthy level of reserves was maintained, despite outflows on account of foreign debt service payments of US dollars 987.4 million and IMF-SBA payments of US dollars 264.7 million.

Exchange Rate Behaviour

The domestic foreign exchange market has remained relatively stable year-to-date, with the rupee marginally appreciating by 0.4 per cent against the US dollar during the year upto 11 July 2014. Based on cross currency exchange rate movements, the Sri Lanka rupee appreciated against the euro by 1.9 per cent, the Canadian dollar by 0.2 per cent and the Chinese renminbi by 2.8 per cent. In the meantime, the rupee depreciated against the Japanese yen by 3.1 per cent, the pound sterling by 3.4 per cent, the Indian rupee by 2.5 per cent, the Singapore dollar by 1.5 per cent and the Australian dollar by 4.6 per cent during this period.

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

Category	May 2013 US\$ mn	May 2014 US\$ mn	Growth May (%)	Jan-May 2013 US\$ mn	Jan- May 2014 US\$ mn	Growth Jan- May (%)
Exports	793.9	882.1	11.1	3,848.8	4,453.2	15.7
Of which						
Agricultural Products	197.9	239.9	21.2	924.7	1,100.6	19.0
of which,						
Tea	128.2	140.6	9.7	568.1	644.4	13.4
Industrial Products	592.8	638.6	7.7	2,910.9	3,304.8	13.5
of which,						
Textiles and Garments	318.9	365.1	14.5	1,643.9	1,966.7	19.6
Rubber Products	68.0	78.0	14.6	328.2	360.3	9.8
Food, Beverages and Tobacco	16.7	22.6	35.7	86.3	121.4	40.7
Mineral Products	2.4	2.8	16.3	8.3	42.2	407.1
Imports	1,548.8	1,275.5	-17.6	7,584.7	7,467.9	-1.5
Of which						
Consumer Goods	266.6	277.8	4.2	1,250.5	1,322.1	5.7
of which,						
Food and Beverages	127.0	137.6	8.4	583.8	584.3	0.1
Other Consumer Goods	139.6	140.2	0.4	666.7	737.8	10.7
Intermediate Goods	907.2	717.0	-21.0	4,435.5	4,589.6	3.5
of which,						
Fuel	323.3	208.9	-35.4	1,764.3	1,970.6	11.7
Textiles and Textile Articles	158.6	176.4	11.2	809.0	884.4	9.3
Investment Goods	373.7	279.7	-25.2	1,893.7	1,550.8	-18.1
of which,						
Machinery and Equipment	217.8	142.9	-34.4	996.4	843.8	-15.3
Transport Equipment	41.5	33.0	-20.5	289.4	196.6	-32.1
Building Materials	113.5	103.6	-8.7	605.3	509.3	-15.9
Deficit in the Trade Account	-754.9	-393.4	-47.9	-3,735.9	-3,014.7	-19.3
Workers' Remittances	512.4(b)	557.5	8.8	2,510.7	2,774.8	10.5
Earnings from Tourism	100.7(b)	130.1	29.2	663.9	901.8	35.8
Portfolio Investments (Net)	35.4	69.9	97.5	107.6	19.3	-82.1
Inflows to the Government (c)	269.6	157.2	-41.7	2,401.7	3,201.1	33.3
of which,						
Treasury Bills and Bonds	125.8	92.8	-26.3	1,707.7	874.9	-48.8
International Sovereign Bonds					1,500.0	
Long term Loans	142.2	64.4	-54.7	685.3	820.9	19.8
Foreign Direct Investment (d)				219.0	442.3	102.0

(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.

(d) Data available for the 1st quarter of each period and includes foreign loans to BOI companies.