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Press Release

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External Sector Performance – June 2014

Overview

The external sector strengthened further in June 2014, with a notable reduction in the trade deficit. Earnings from exports continued to improve, while expenditure on imports declined further mainly due to the reduction in oil imports. Inflows on account of workers' remittances and earnings from tourism also increased during the month, contributing to a further reduction in the current account deficit. These developments together with continued inflows to the financial account resulted in a healthy surplus in the balance of payments (BOP) by end June 2014.

Trade Account of the BOP

The cumulative trade deficit contracted by 20.1 per cent, as a result of a 16.8 per cent growth in export earnings and a 1.2 per cent decline in import expenditure during the first half of 2014. On a year-on-year basis, earnings from exports in June 2014 grew by 22.0 per cent to US dollars 986 million, while expenditure on imports declined by 4.6 per cent to US dollars 1,439 million. Accordingly, the trade deficit contracted for the ninth consecutive month in June 2014, by 35.3 per cent to US dollars 454 million.

Export Performance

Expansion in all major export categories contributed to the growth in exports in June 2014. Industrial exports, which was the major contributor to export earnings (64 per cent) led the growth in overall exports, followed by agricultural exports (36 per cent).

Earnings from industrial exports grew by 18.7 per cent, year-on-year, to US dollars 725 million in June 2014, mainly due to favourable performance in major export categories such as textiles and garments, rubber products and leather products. Textiles and garment exports which account for 45.3 per cent of total exports grew by 25 per cent, year-on-year, to US dollars 446 million in June 2014 contributing more than 50 per cent to the overall growth in exports in June 2014. The significant increase in exports to both traditional markets such as the EU which grew by 34.6 per cent and USA which grew by 12.1 per cent and non traditional markets which grew by 44.5 per cent contributed to this growth. The rapid growth in the apparel industry indicates the ability of the industry to achieve the target for exports of US dollars 5 billion well before 2016. Strategies such as backward integration and promotion of new Sri Lankan brands in the international market has helped the industry to grow rapidly. The maintenance of safety and other international standards helped the textile and garment industry in Sri Lanka to face the strong competition in international markets.

Export of rubber products which is the second major contributor to industrial exports grew by 11.1 per cent to US dollars 77 million in June 2014 mainly due to an increase in export of rubber tyres. Although the continued decline in the international price of raw rubber has had a negative effect on raw rubber exports, this has benefitted domestic manufacturers of rubber products and encouraged value added rubber exports. Further, export of leather, travel goods and footwear has more than doubled during the month. An increase in export of food and beverages, machinery and mechanical appliances, transport equipment and chemical products have also contributed to the growth in industrial product exports. Although export of diamonds and jewellery declined, export of gems increased significantly in June 2014. The export of petroleum products also contracted mainly

due to a decline in bunker and aviation fuel exports as the industry is facing intense competition from regional players such as India.

Agricultural exports recorded a healthy performance growing by around 33 per cent, year-on-year, to US dollars 256 million in June 2014. Earnings from tea exports grew by 31.5 per cent to US dollars 153 million in June 2014, the combined outcome of a 23.5 per cent increase in tea export volumes and a 6.5 per cent increase in the average export price of tea. Earnings from export of coconut more than doubled to US dollars 32 million mainly due to an increase in export of kernel products. The favourable developments in coconut exports, both kernel and non-kernel products during the first half of 2014 reflect the improved production of coconut due to the favourable weather conditions that prevailed during the previous year. Higher export earnings from minor agricultural products and seafood also contributed to the growth in agricultural exports. However, in June 2014, earnings from raw rubber exports contracted by 23.7 per cent compared to June 2013 mainly due to the continuous decline in export volumes due to the utilisation of raw rubber in rubber manufacturing industries and decline in prices owing to a fall in demand from major rubber consumers and an increase in production from new rubber producers.

Import Performance

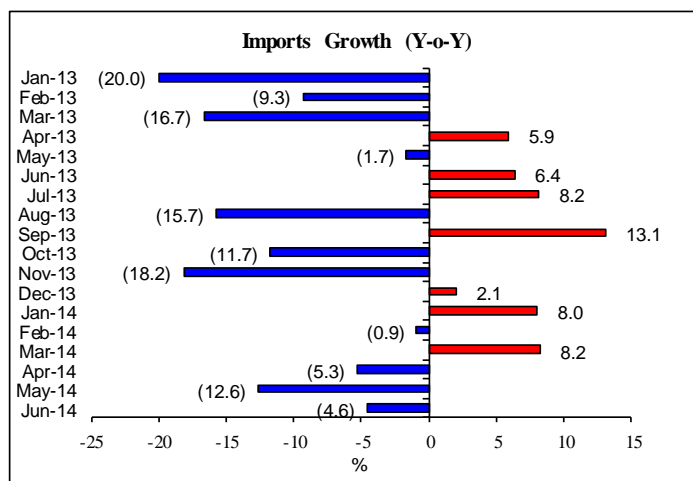
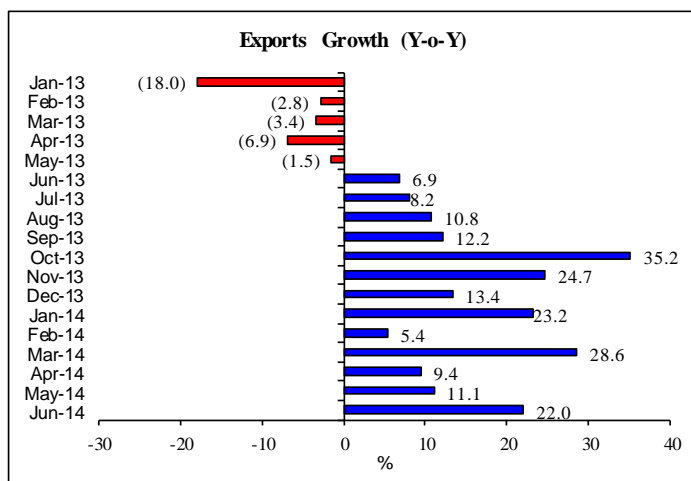
Expenditure on imports declined by 4.6 per cent to US dollars 1,439 million in June 2014, mainly due to a decline in expenditure on intermediate goods imports. On a cumulative basis, expenditure on imports declined marginally by 1.2 per cent during the first six months of 2014 compared to the corresponding period of 2013.

Expenditure on intermediate goods imports declined by 7.5 per cent, year-on-year, to US dollars 891 million in June 2014 mainly due to the significant decline in imports of petroleum, wheat and maize, gold and fertilizer. The reduction in import expenditure on petroleum products was due to the significant decline in crude oil imports. Import expenditure on wheat declined by 62 per cent compared to the corresponding month of the previous year owing to a sharp fall in international wheat prices. Import expenditure on diamond, precious stones and metals also

declined by 88.6 per cent to US dollars 5.6 million during June 2014, mainly due to decline in gold and diamond imports. Further, fertilizer imports declined by 54.5 per cent, year-on-year, to US dollars 14 million in June 2014, mainly due to low demand for fertilizer as a result of the drought weather conditions prevailing in the country and a substantial decline in international fertilizer prices due to a fall in natural gas prices. However, import expenditure on textiles and textile articles, plastics and articles, food preparations, paper and paperboard articles and mineral products grew during the month under review.

Meanwhile, expenditure on consumer goods imports recorded a marginal growth of 1.2 per cent, year-on-year, to US dollars 277 million in June 2014. An increase in expenditure on food and beverages such as sugar and confectionery and cereals and milling industry products mainly contributed to this increase. However, expenditure on dairy products, seafood and oils and fat imports declined in June 2014. Import of non-food consumer goods declined by 7.6 per cent, mainly due to a fall in medical and pharmaceuticals imports by 27.1 per cent and a fall in import of home appliances by 31.1 per cent. However, import of vehicles, household and furniture items and clothing and accessories increased in June 2014.

Expenditure on investment good imports was US dollars 270 million in June 2014, the same level recorded in June 2013. Import of investment goods increased only marginally due to the build-up of inventories in the recent past and the completion of several mega construction projects. Expenditure on machinery and equipment imports increased by 5.1 per cent due to an increase in import of engineering equipment, electronic equipment, electric motors and generating sets although import of telecommunication devices, office machines and textile industry machinery declined during this period. Import expenditure on building materials rose by 9.0 per cent mainly due to an increase in import of plastics, rubber and glassware. However, import of transport equipment declined by 40.9 per cent with reductions recorded in almost all sub categories.



Earnings from Tourism in the Services Account of the BOP

Tourist arrivals recorded a growth of 25.2 per cent to 133,971 in July 2014 from 107,016 in July 2013. Meanwhile, earnings from tourism were estimated to have increased by 34.4 per cent to US dollars 193.6 million in July 2014, compared to US dollars 144.0 million in July 2013. On a cumulative basis, tourist arrivals recorded a growth of 24.7 per cent to 861,324, while earnings from tourism recorded a growth of 33.9 per cent to US dollars 1,244.4 million up to July 2014. The top five sources of tourist arrivals in July 2014 were India, UK, China, France and Germany, accounting for around 51 per cent of tourist arrivals during the month.

Current Transfers in the BOP

In June 2014, workers' remittances rose by 10.8 per cent to US dollars 585.1 million from US dollars 528.2 million in June 2013. Accordingly, cumulative inflows of workers' remittances up to June 2014 recorded a growth of 10.6 per cent to US dollars 3,360 million from US dollars 3,039 million in the corresponding period of 2013.

Financial Account of the BOP

By end June 2014, net inflows to the government securities market amounted to US dollars 196.5 million, comprising net inflows to Treasury bills and Treasury bonds amounting to US dollars 54.4 million and US dollars 142.1 million, respectively. Meanwhile, inflows to the government on account of long term loans up to June

2014 were US dollars 962 million compared to US dollars 951 million during the corresponding period of 2013. Foreign investments in the Colombo Stock Exchange (CSE) recorded a cumulative net inflow of US dollars 48 million up to June 2014, compared to US dollars 116.5 million during the corresponding period in 2013. However, by 18 August 2014, net foreign investments into the CSE amounted to US dollars 86 million. Further, inflows to the licensed commercial banks (LCBs) and licensed specialised banks (LSBs) during the first six months in 2014 amounted to US dollars 105 million.

Overall BOP Position

The overall BOP is estimated to have recorded a healthy surplus of US dollars 1,953.6 million during the first half of 2014, compared to a deficit of US dollars 169.2 million during the corresponding period of 2013.

International Reserve Position

Sri Lanka's gross official reserves, including the Asian Clearing Union (ACU) balances, reached a level of US dollars 9.2 billion by end June 2014, while total foreign assets, which include foreign assets of the banking sector as well, amounted to US dollars 10.7 billion by end June 2014. In terms of months of imports, gross official reserves were equivalent to 6.1 months of imports by end June 2014, while total foreign assets were equivalent to 7.2 months of imports. Despite outflows on account of foreign debt service payments of US dollars 740.6 million and IMF-SBA payments of US dollars 351 million, an adequate level of reserves were maintained throughout the first half of 2014. By early August 2014, the gross official reserves which had a steady rise, recorded a level above US dollars 9 billion without the ACU balances, thereby reflecting an even greater sustainable level of reserves.

Exchange Rate Behaviour

During the year so far (up to 18 August 2014) the rupee remained steady against the US dollar, marginally appreciating by 0.45 per cent. In terms of cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 3.50 per cent, the Canadian dollar by 2.62 per cent and the Chinese renminbi by 1.87 per

cent while depreciating against the Japanese yen by 2.07 per cent, the pound sterling by 0.99 per cent, the Indian rupee by 1.40 per cent, the Singapore dollar by 1.22 per cent and the Australian dollar by 3.79 per cent.

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

Category	June 2013 US\$ mn	June 2014 US\$ mn	Growth June (%)	Jan-June 2013 US\$ mn	Jan- June 2014 US\$ mn	Growth Jan- June (%)
Exports	807.6	985.6	22.0	4,656.4	5,438.9	16.8
Of which						
Agricultural Products	192.6	256.1	33.0	1,117.3	1,356.7	21.4
of which, Tea	116.0	152.6	31.5	684.2	797.0	16.5
Industrial Products	611.1	725.3	18.7	3,521.9	4,030.1	14.4
of which, Textiles and Garments	356.9	446.2	25.0	2,000.8	2,412.9	20.6
Rubber Products	69.0	76.6	11.1	397.1	436.9	10.0
Food, Beverages and Tobacco	17.2	22.5	30.7	103.5	144.0	39.1
Mineral Products	3.1	2.9	-6.0	11.5	45.2	294.1
Imports	1,509.4	1,439.4	-4.6	9,094.1	8,985.0	-1.2
Of which						
Consumer Goods	274.0	277.3	1.2	1,524.5	1,599.4	4.9
of which, Food and Beverages	120.8	135.6	12.3	704.6	719.9	2.2
Other Consumer Goods	153.3	141.7	-7.6	819.9	879.5	7.3
Intermediate Goods	964.0	891.5	-7.5	5,399.4	5,558.8	3.0
of which, Fuel	455.2	412.4	-9.4	2,219.5	2,460.7	10.9
Textiles and Textile Articles	156.9	164.4	4.8	965.9	1,048.8	8.6
Investment Goods	269.6	269.8	0.1	2,163.3	1,820.7	-15.8
of which, Machinery and Equipment	138.6	145.6	5.1	1,135.0	989.4	-12.8
Transport Equipment	37.7	22.3	-40.9	327.1	218.9	-33.1
Building Materials	92.9	101.3	9.0	698.2	610.6	-12.5
Deficit in the Trade Account	-701.8	-453.8	-35.3	-4,437.6	-3,546.1	-20.1
Workers' Remittances	528.2(b)	585.1	10.8	3,039.0(b)	3,360.0	10.6
Earnings from Tourism	121.5(b)	149.1	22.7	785.4(b)	1,050.9	33.8
Portfolio Investments (Net)	8.9	28.8		116.5	48.0	
Inflows to the Government (c)	387.2	199.9	-48.4	2,788.9	3,429.5	23.0
of which,						
Treasury Bills and Bonds	110.9	67.0	-39.6	1,818.5	941.9	-48.2
International Sovereign Bonds					1,500.0	
Long term Loans	265.2	123.1	-53.6	950.5	961.7	1.2
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 first quarter of each period and includes foreign loans to BOI companies.