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Press Release

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External Sector Performance - July 2014

Overview

Continuing the upward momentum observed during the first half of the year, exports earnings improved further in July 2014. Expenditure on imports also recorded an increase in July 2014 compared to the decline recorded in the preceding three months. A relatively higher increase in import expenditure resulted in a higher trade deficit in July 2014 compared to July 2013. However, inflows from workers' remittances and tourism continued to strengthen the current account further. An increase of inflows to the financial account together with other inflows resulted in an estimated surplus of the balance of payments (BOP) for the year to July 2014 compared to the deficit recorded in the corresponding period of 2013. The improved BOP position strengthened the international reserves and stabilized the exchange rate further.

Export Performance

Earnings from exports grew by 11.1 per cent to US dollars 955 million in July 2014 recording a cumulative growth of 15.9 percent during the first seven months of 2014. All major export categories contributed to the growth in exports, while the largest contribution came from industrial exports. Reflecting the impact of seasonal demand, textile and garment exports grew at a higher rate while the exports of

rubber products also increased, helped by an enhanced level of exports of rubber tyres. However, export earnings from bunkering and aviation fuel which account for a major share in petroleum products declined due to lower volume although an increase in prices was recorded. This partly reflects the heightened competition in the industry from major regional players such as India and Singapore. Further, exports earnings from gems and diamonds declined, while the jewellery exports increased in July 2014.

Earnings from agricultural exports rose mainly due to enhanced performance in coconut and tea exports. The growth in kernel product exports drove the increase in earnings on coconut exports. Meanwhile, earnings from tea exports recorded a healthy growth supported by favourable prices despite declined volumes. Export earnings from seafood and minor agricultural products also contributed significantly to the growth in agricultural exports. However, in July 2014, earnings from rubber exports declined mainly due to adverse weather conditions and continuous drop in rubber prices in the international market, while earnings from export of spices declined mainly due to lower production.

Table 1. Earnings from Exports

Category	July 2013 (USD mn)	July 2014 (USD mn)	Growth (%)	Contribution to growth (%)
1. Agricultural exports	233.9	252.2	7.8	19.2
Tea	135.6	147.2	8.5	12.1
Coconut	17.8	34.6	94.4	17.6
Sea Food	18.3	22.4	22.1	4.2
Spices	38.4	26.9	-29.9	-12.0
Other	23.7	21.1	-11.1	-2.8
2. Industrial exports	622.0	699.0	12.4	80.6
Textiles and garments	372.5	414.5	11.3	44.0
Rubber products	67.9	79.7	17.4	12.4
Gems, diamonds and jewellery	43.3	29.6	-31.7	-14.4
Machinery and mechanical appliances	26.2	32.6	24.3	6.7
Petroleum products	30.1	28.2	-6.6	-2.1
Food beverages & tobacco	17.8	22.6	26.6	5.0
Other	64.2	92.0	43.2	29.1
Total exports	859.3	954.7	11.1	100.0

Sources: Ceylon Petroleum Corporation and Other Exporters of Petroleum
National Gem and Jewellery Authority
Sri Lanka Customs
Central Bank of Sri Lanka

Import Performance

Expenditure on imports increased by 28.8 per cent to US dollars 1,845 million in July 2014 reflecting an increase in all major import categories, but were particularly in fuel. On a cumulative basis, expenditure on imports increased by 2.9 per cent during the first seven months of 2014.

Table 2. Expenditure on Imports

Category	July 2013 (USD mn)	July 2014 (USD mn)	Growth (%)	Contribution to growth (%)
1. Consumer goods	308.7	361.1	17.0	12.7
Food and Beverages	135.7	154.0	13.5	4.4
Dairy products	31.9	39.0	22.5	1.7
Other food and beverages	103.8	114.9	10.7	2.7
Other consumer goods	173.1	207.2	19.7	8.3
Vehicles	65.8	71.4	8.5	1.4
Medical and pharmaceuticals	34.8	37.2	7.1	0.6
Other non food consumables	72.5	98.6	35.9	6.3
2. Intermediate goods	775.4	1,118.7	44.3	83.3
Fuel	266.8	515.8	93.3	60.4
Textile and textile articles	194.2	206.6	6.4	3.0
Chemical products	61.6	75.6	22.6	3.4
Plastic and articles thereof	46.6	57.1	22.7	2.6
Base metals	23.4	55.7	137.9	7.8
Paper and paperboard and articles thereof	35.2	45.7	29.7	2.5
Wheat and Maize	5.9	27.9	372.3	5.3
Other	141.7	134.4	-5.1	-1.8
3. Investment goods	347.8	364.3	4.7	4.0
Machinery and Equipment	191.1	209.2	9.5	4.4
Building materials	98.7	104.4	5.8	1.4
Transport equipment	57.6	50.5	-12.4	-1.7
Other	0.4	0.2	-61.2	-0.1
Total imports	1,433.0	1,845.3	28.8	100.0

Sources: Ceylon Petroleum Corporation
Lanka IOC PLC
Sri Lanka Customs
Central Bank of Sri Lanka

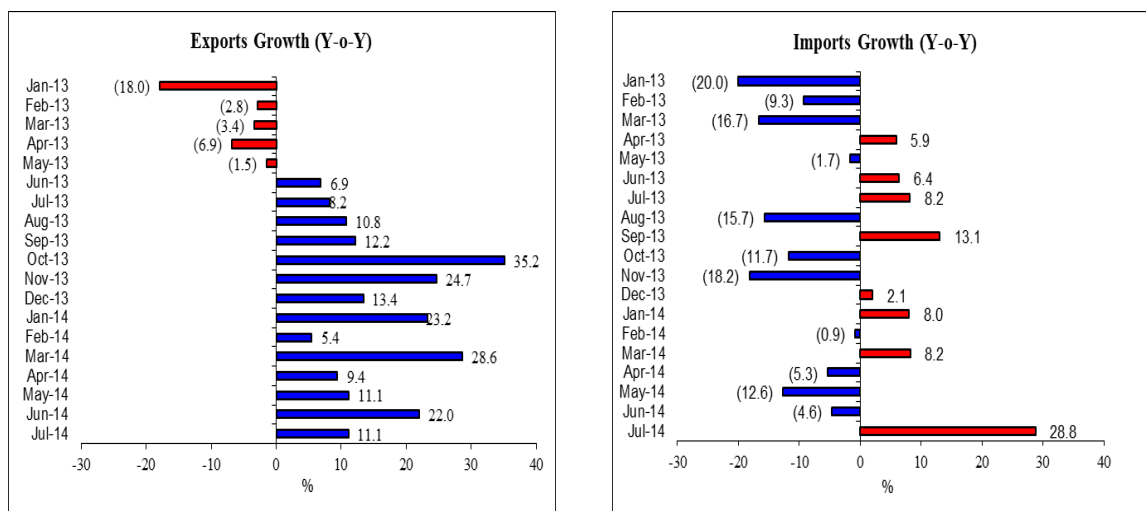
Import expenditure on fuel increased by 93.3 per cent, year-on-year, to US dollars 516 million in July 2014 mainly due to the base effect of non-importation of crude oil in July 2013 and 6.5 per cent increase in imports of refined petroleum products. Meanwhile, import expenditure on base metals increased by 137.9 per cent, year-on-

year to US dollars 56 million mainly due to an increase in iron, steel and copper imports. Import expenditure on consumer goods increased due to an increase in both food and non-food consumer good categories. A substantial increase in imports of sugar and confectionery, cereals and milling industry and dairy products led the increase in import expenditure on food and beverages, while non-food consumer goods imports increased mainly due to the significant increase in clothing and accessories and vehicle imports. Expenditure on imports of investment goods grew in July 2014 supported by imports of machinery and equipment and building materials.

Trade Balance

As the growth of exports earnings were outweighed by the growth of import expenditure in July 2014, trade deficit widened to US dollar 891 million, compared to US dollars 574 million in July 2013. However, on a cumulative basis, trade deficit in first seven months of 2014 is lower by 11.5 per cent compared to the corresponding period in 2013.

Chart 1: Growth in Exports and Imports



Earnings from Tourism

Tourist arrivals grew by 25.2 per cent in July 2014 followed by 13.8 per cent growth in August 2014 to 140,319 tourists from 123,269 in the corresponding month of 2013. India, UK, China, Germany and France were the top five sources of tourist arrivals accounting for 47.6 per cent of total arrivals in August 2014. Earnings from tourism are estimated to have increased by 22.2 per cent to US dollars 202.7 million in

August 2014 compared to US dollars 165.9 million in August 2013. Meanwhile, in cumulative terms tourist arrivals recorded a growth of 23.1 per cent during the year to August 2014 while earnings from tourism soared by 32.1 per cent to US dollars 1,447.2 million during the period.

Current Transfers

Workers' remittances grew by 15.2 per cent to US dollars 606.7 million in July 2014 compared to US dollars 526.6 million in the corresponding period of 2013. Meanwhile, cumulative inflows of workers' remittances rose to US dollars 3,966.6 million during the first seven months of 2014 from a corresponding figure of US dollars 3,565.6 million during the same period of 2013, resulting in a growth of 11.2 per cent.

Financial Flows

Long term loan inflows to the Government amounted to US dollars 1,100.3 million during the first seven months of the year compared to US dollars 1,050.5 million during the same period of 2013. Net inflows to the Government securities market stood at US dollars 231.8 million by end July 2014, which included Treasury bills and Treasury bonds amounting to US dollars 81.7 million and US dollars 150.1 million, respectively. Foreign investments in the Colombo Stock Exchange (CSE) up to end July 2014 recorded a net inflow of US dollars 84.3 million. Foreign direct investments, including loans to BOI companies, amounted to US dollars 850 million during the first half of 2014 recording a growth of 54.8 per cent from US dollars 549.1 million in the first half of 2013. Meanwhile, inflows to licensed commercial banks and licensed specialised banks amounted to US dollars 125 million during the first seven months of 2014.

Overall BOP Position

During the period of January to July 2014 the BOP is estimated to have recorded a surplus of US dollars 2,015.6 million compared to a deficit of US dollars 179.7 million in the corresponding period of 2013.

International Reserves

As at end July 2014, Sri Lanka's gross official reserves amounted to US dollars 9 billion, while the same is estimated to have increased to US dollars 9.2 billion by end August. Meanwhile, total foreign assets, which include foreign assets of the banking sector, amounted to US dollars 10.5 billion at end July 2014. Gross official reserves were equivalent to 5.9 months of imports, while total foreign assets were equivalent to 6.9 months of imports. A healthy level of reserves was maintained amidst foreign exchange outflows on account of debt service payments amounting to US dollars 1,478 million and repayment of the IMF-SBA of US dollars 433 million during the first seven months of the year.

Exchange Rate Behaviour

The rupee remained stable against the US dollar during the period up to 15 September 2014, with a marginal appreciation of 0.36 per cent. Based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 6.85 per cent, the Canadian dollar by 4.54 per cent, the Chinese renminbi by 1.65 per cent, the Japanese yen by 2.57 per cent and the pound sterling by 1.87 per cent. Meanwhile, the Sri Lankan rupee depreciated against the Indian rupee by 1.69 per cent and the Australian dollar by 0.60 per cent.

Table 3. A Summary of External Sector Performance – January - July 2014 (a)

Category	July 2013 US\$ mn	July 2014 US\$ mn	Growth July (%)	Jan-July 2013 US\$ mn	Jan- July 2014 US\$ mn	Growth Jan- July (%)
Exports	859.3	954.7	11.1	5,515.7	6,393.6	15.9
Imports	1,433.0	1,845.3	28.8	10,527.1	10,830.3	2.9
Trade Balance	-573.7	-890.6	55.2	-5,011.4	-4,436.7	-11.5
Earnings from Tourism	144.0(b)	193.6	34.4	929.5(b)	1,244.4	33.9
Inflows to Other Trade in Services (c)				1,469.6(b)	1,670.5	13.7
Workers' Remittances	526.6(b)	606.7	15.2	3,565.6(b)	3,966.6	11.2
Inflows to the CSE (Net)	11.0	36.3		134.3	84.3	
Inflows to the Government (d)	305.4	575.3	88.4	3,094.3	4,066.1	31.4
of which,						
Treasury Bills and Bonds	205.3	467.8	127.9	2,023.8	1,409.7	-30.3
International Sovereign Bonds					1,500.0	
Long term Loans	100.0	106.7	6.7	1,050.5	1,100.3	4.7
Foreign Direct Investment (c)				549.1	850.0	54.8

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

(a) Provisional

(b) Revised

(c) Data available for the first half of each period.

(d) 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.