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Press Release

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External Sector Performance - August 2014

Overview

Upward momentum in the external sector continued with a further improvement of export earnings in August 2014. Expenditure on imports also recorded an increase for the second consecutive month of the year. The cumulative trade deficit was lower during the first eight months of 2014, compared to the same in 2013, helping to improve the current account of the Balance of Payments (BOP). This outcome, together with continued inflows to the financial account resulted in a higher surplus in the BOP during the first eight months of 2014, thereby strengthening the international reserves and the exchange rate.

Export Performance

Earnings from exports continued to increase in August 2014 by 7.9 per cent, year-on-year, to US dollars 991 million while the cumulative earnings were up by 14.8 per cent to US dollars 7,385 million during the first eight months of 2014. The main product categories that contributed to the export growth in August 2014 were textiles and garments, transport equipment and coconut products. Continuing the upward momentum, textiles and garments exports grew at a higher rate contributing more than 85 percent of the export growth in August 2014 supported by

a substantial improvement in lingerie exports. Further, the export of transport equipment increased largely due to the export of a cruise ship, while the increase of earnings on coconut exports was mainly led by the significant increase in kernel products. However, exports of bunkering and aviation fuel, which account for a major share of petroleum products, continued to decline reflecting the heightened competition from major regional players. Also, export earnings from diamonds declined due to non-operation of a major diamond exporter, while exports of spices dipped due to a lower level of production during the year. Major export destinations during January to August 2014 were USA, UK, Italy, India and Germany accounting for around 50 per cent of total exports.

Table 1. Earnings from Exports

Category	August 2013 (USD mn)	August 2014 (USD mn)	Growth (%)	Contribution to growth (%)
1. Industrial exports	668.9	748.2	11.9	109.2
Textiles and garments	366.5	428.6	17.0	85.6
Rubber products	77.7	82.4	6.1	6.5
Gems, diamonds and jewellery	46.6	36.2	-22.4	-14.4
Transport equipment	6.2	32.7	426.8	36.5
Machinery and mechanical appliances	27.3	32.1	17.6	6.6
Petroleum products	48.3	25.3	-47.5	-31.6
Food beverages & tobacco	26.7	28.1	5.2	1.9
Other	69.7	82.8	18.8	18.1
2. Agricultural exports	247.1	239.4	-3.1	-10.5
Tea	142.8	138.9	-2.8	-5.5
Coconut	18.7	35.0	87.1	22.5
Sea Food	19.9	19.8	-0.7	-0.2
Spices	44.3	24.1	-45.5	-27.8
Other	21.4	21.6	0.9	0.3
Total exports	918.6	991.3	7.9	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 16.9 per cent to US dollars 1,725 million in August 2014, while on a cumulative basis, imports grew by 4.6 per cent to US dollars 12,555 million during the first eight months of 2014. The increase in import expenditure in August was mainly due to the imports of refined petroleum products for higher level of thermal power generation compared to the corresponding month of 2013. Also, the imports of textiles and textile articles and motor vehicles for personal use increased considerably during August 2014. However, the substantial increase in textiles and garments exports over the imports of textiles and textile articles reflects the lower dependency on imported raw material and higher value addition in the garment industry. The increase in import of motor vehicles for personal use during August 2014 was mainly due to the higher level of import of motor cars and motorcycles. Further, rice imports also increased significantly during the month as a result of a shortfall in domestic rice production during the year. During the first eight months of 2014, the main import origins were India, China, UAE, Singapore and Japan accounting for around 60 per cent of total imports.

Chart 1: Growth in Exports and Imports

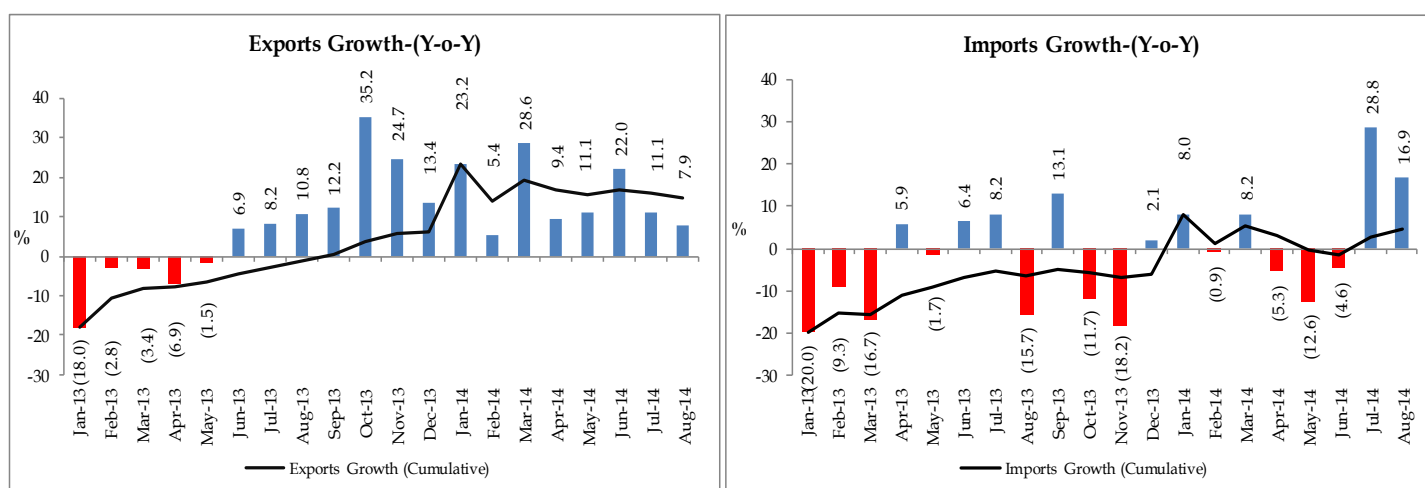


Table 2. Expenditure on Imports

Category	August 2013 (USD mn)	August 2014 (USD mn)	Growth (%)	Contribution to growth (%)
1. Consumer goods	266.6	327.8	23.0	24.5
Food and Beverages	101.5	121.8	19.9	8.1
Dairy products	27.9	23.5	-15.6	-1.7
Other food and beverages	73.7	98.2	33.4	9.8
Other consumer goods	165.1	206.1	24.8	16.4
Vehicles	68.7	102.2	48.7	13.4
Medical and pharmaceuticals	32.0	31.5	-1.5	-0.2
Other non- food consumables	64.3	72.4	12.5	3.2
2. Intermediate goods	876.5	1,061.5	21.1	74.1
Fuel	390.2	472.0	21.0	32.8
Textiles and textile articles	168.6	214.3	27.0	18.3
Chemical products	60.8	69.5	14.3	3.5
Plastic and articles thereof	40.9	52.8	29.1	4.8
Base metals	44.7	48.0	7.6	1.4
Paper and paperboard articles	31.2	41.7	33.4	4.2
Wheat and Maize	29.5	40.8	38.3	4.5
Other	110.5	122.4	10.8	4.8
3. Investment goods	330.5	334.0	1.1	1.4
Machinery and Equipment	172.5	170.4	-1.2	-0.8
Building materials	111.9	122.1	9.1	4.1
Transport equipment	45.8	41.3	-9.9	-1.8
Other	0.3	0.2	-36.6	0.0
Total imports	1,474.9	1,724.5	16.9	100.0

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

Trade Balance

As the growth of imports weighed on the export earnings, the trade deficit widened to US dollars 733 million in August 2014, compared to US dollars 556 million in August 2013. However, on a cumulative basis, trade deficit during the first eight months of 2014 declined by 7.1 per cent compared to the corresponding period in 2013.

Earnings from Tourism

Tourist arrivals grew at a healthy rate of 13.8 per cent, year-on-year, to 140,319 in August 2014 from 123,269 in August 2013. The top five sources of tourist arrivals in August were India, UK, China, Germany and France, accounting for 47.6 per cent of total arrivals during the month. 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.

Workers' remittances

Workers' remittances increased by 1.5 per cent, year-on-year, to US dollars 548 million in August 2014 from US dollars 540 million in August 2013. For the first eight months of 2014, cumulative inflows from workers' remittances stood at US dollars 4,515 million, a growth of 10 per cent compared to the corresponding period of 2013.

Financial Flows

Long term loans obtained by the government during the year to end August 2014 amounted to US dollars 1,173 million, compared to US dollars 1,156 million during the corresponding period in 2013. Net inflows to the Government securities market from January to end August 2014 amounted to US dollars 218 million, which comprised net inflows to Treasury bills and Treasury bonds amounting to US dollars 37 million and US dollars 181 million, respectively. Foreign Investments in the Colombo Stock Exchange (CSE) recorded a net outflow of US dollars 28 million in August 2014 compared to the net inflow of US dollars 18 million recorded in the corresponding period in 2013. However, on a cumulative basis, foreign investments in the CSE up to end August 2014 recorded a net inflow of US dollars 56.7 million. Meanwhile, inflows to Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) during the first eight months in 2014 amounted to US dollars 200 million.

Overall BOP Position

During the period from January to August 2014, the BOP is estimated to have recorded a surplus of US dollars 2,150 million compared to the deficit of US dollars 66 million in the corresponding period of 2013.

International Reserves

By end August 2014, Sri Lanka's gross official reserves amounted to US dollars 9.2 billion, while total foreign assets, which include foreign assets of the banking sector amounted to US dollars 10.7 billion. In terms of months of imports, gross official reserves were equivalent to 5.9 months of imports at end August 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 1,694 million and IMF-SBA payments of US dollars 517 million. In addition, the Central Bank also now has access to a CNY 10 billion, equivalent to US dollars 1.6 billion, as a result of the bilateral Currency Swap agreement entered into with the People's Bank of China. This Swap facility, which is of a tenor of 3 years and renewable, is expected to further strengthen the external stability of the Sri Lankan economy.

Exchange Rate Behaviour

The rupee remained stable against the US dollar during the period up to 06 October 2014, with a marginal appreciation of 0.3 per cent. Based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 9.8 per cent, the Japanese yen by 4.4 per cent, the pound sterling by 3.1 per cent, the Canadian dollar by 5.3 per cent, Australian dollar by 2.5 and the Chinese renminbi by 1.6 per cent. Meanwhile, the Sri Lankan rupee depreciated against the Indian rupee by 0.5 per cent.

Table 3. A Summary of External Sector Performance: January - August 2014 (a)

Category	August 2013 US\$ mn	August 2014 US\$ mn	Growth August (%)	Jan-August 2013 US\$ mn	Jan-August 2014 US\$ mn	Growth Jan-August (%)
Exports	918.6	991.3	7.9	6,434.4	7,384.9	14.8
Imports	1,474.9	1,724.5	16.9	12,002.0	12,554.8	4.6
Trade Balance	-556.3	-733.2	31.8	-5,567.6	-5,170.0	-7.1
Earnings from Tourism	165.9 (b)	202.7	22.2	1,095.4 (b)	1,447.2	32.1
Inflows to Other Trade in Services (c)				1,469.6 (b)	1,670.5	13.7
Workers' Remittances	540.0 (b)	548.1	1.5	4,105.6 (b)	4,514.7	10.0
Inflows to the CSE (Net)	17.5	-27.6		151.8	56.7	
Inflows to the Government (d)	342.0	200.9	-41.3	3,436.3	4,287.0	24.8
of which,						
Treasury Bills and Bonds	233.9	137.2	-41.4	2,257.7	1,546.8	-31.5
International Sovereign Bonds					1,500.0	
Long term Loans	105.6	63.2	-40.2	1,156.1	1,173.3	1.5
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.