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Press Release

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External Sector Performance – December 2014

Overview

Sri Lanka's external sector remained stable during 2014 with continuous inflows being recorded in the Balance of Payments (BOP). Foreign exchange inflows to the country in terms of exports, tourist earnings, workers' remittances, foreign direct investments (FDI) and other inflows to the financial account recorded a noteworthy growth during the year. Although the increase in imports towards the end of the year exerted some pressure on the current account, the overall balance of the BOP recorded a surplus of US dollars 1.4 billion during 2014.

Export Performance

Earnings from exports amounted to US dollars 1,010 million in December 2014 registering a 2.2 per cent growth year-on-year, reflecting increases in all major categories. The largest contribution came from industrial exports, supported by a substantial increase in transport equipment, which included an export of a cruise ship. Export of gems, diamond and jewellery, leather, travel goods and foot wear,

machinery and mechanical appliances, food, beverages and tobacco also contributed significantly for the growth in industrial exports. However, earnings from textiles and garments exports which accounted for about 45 per cent of total exports recorded a marginal decline of 0.6 per cent in December 2014 against the high export base recorded in December 2013. Such decline is resulted by the drop of garment exports to the EU by 13.8 per cent despite the increase of exports to the USA by 11.5 per cent. Meanwhile, earnings from tea exports recorded a decline of 5.8 per cent in value term due to lower prices in spite of a volume increase by 2.6 per cent. Further, earnings from sea food exports continued to decline in December. However, earnings from coconut products increased by 31.6 per cent mainly due to significant increase in export of coconut kernel products while minor agricultural products also increased significantly compared to the corresponding month of 2013.

Table 1: Earnings from Exports

Category	December 2013 (USD mn)	December 2014 (USD mn)	Growth (%)	Jan-Dec 2013 (USD mn)	Jan-Dec 2014 (USD mn)	Growth (%)
1. Industrial exports	742.8	756.8	1.9	7,749.4	8,249.6	6.5
Textiles and garments	453.9	451.1	-0.6	4,508.3	4,929.9	9.4
Rubber products	93.9	72.9	-22.3	887.8	889.8	0.2
Gems, diamonds and jewellery	27.2	34.2	25.7	445.5	381.2	-14.4
Transport equipment	4.7	36.6	686.9	146.3	151.8	3.7
Machinery and mechanical appliances	26.9	30.9	14.7	312.3	342.9	9.8
Petroleum products	31.2	24.3	-22.0	427.7	338.0	-21.0
Food beverages and tobacco	21.1	24.8	17.2	235.2	289.3	23.0
Other	83.9	82.1	-2.2	786.2	926.7	17.9
2. Agricultural exports	242.1	249.4	3.0	2,581.1	2,793.9	8.2
Tea	148.4	139.8	-5.8	1,542.2	1,628.3	5.6
Coconut	20.1	26.5	31.6	204.6	356.4	74.2
Sea Food	23.2	21.8	-5.8	233.7	252.7	8.1
Spices	26.0	28.4	8.9	355.4	264.6	-25.6
Minor agricultural products	10.1	21.1	109.3	101.3	165.2	63.1
Other	14.3	11.7	-17.9	143.8	126.7	-11.9
3. Mineral and other	2.7	3.6	32.9	63.8	74.2	16.4
Total exports	987.7	1,009.8	2.2	10,394.3	11,117.6	7.0

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

Import Performance

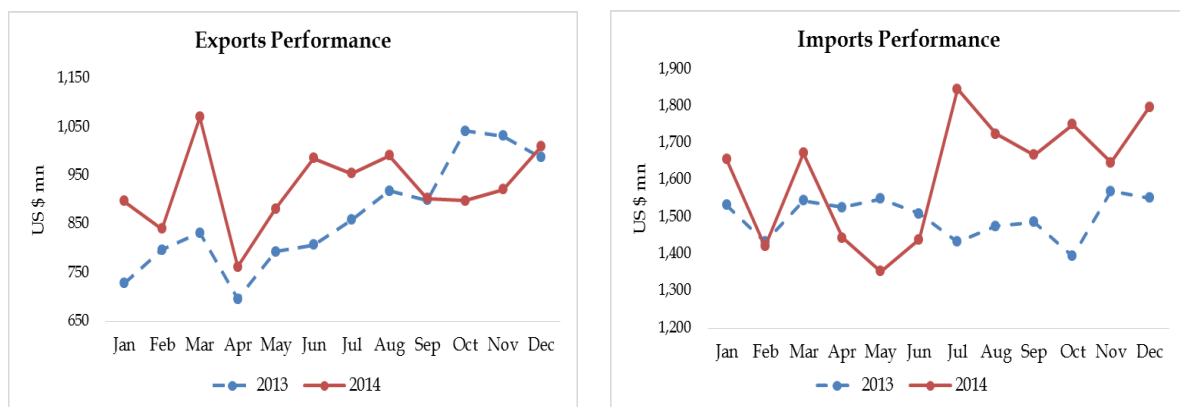
Expenditure on imports increased by 15.9 per cent, year-on-year, to US dollars 1,797 million in December 2014, led by imports of investment goods and consumer goods. The increase in investment goods was mainly led by imports of transport equipment with significant increase in imports of buses and auto trishaws. Imports of consumer goods increased reflecting substantial increases in both food and non-food categories. Import expenditure on non-food consumer goods increased by 53.4 per cent mainly due to more than two fold growth in vehicle imports particularly small motor cars. Meanwhile, substantial increase in rice imports mainly contributed for the growth in food imports. Textiles and textiles articles, wheat and maize, mineral products and base metals contributed significantly for the growth in imports of intermediate goods. However, import expenditure on fuel declined by 43.6 per cent due to the significant decline in both prices and volumes. As a result, import of intermediate goods category increased marginally by 0.1 per cent in December 2014.

Table 2: Expenditure on Imports

Category	December 2013 (USD mn)	December 2014 (USD mn)	Growth (%)	Jan-Dec 2013 (USD mn)	Jan-Dec 2014 (USD mn)	Growth (%)
1. Consumer goods	302.2	422.1	39.7	3,182.5	3,852.5	21.1
Food and Beverages	137.4	169.3	23.2	1,368.1	1,633.7	19.4
Dairy products	34.7	21.3	-38.5	291.0	339.4	16.6
Other food and beverages	102.7	147.9	44.1	1,077.1	1,294.4	20.2
Other consumer goods	164.9	252.9	53.4	1,814.4	2,218.8	22.3
Vehicles	49.3	111.5	126.3	582.2	896.7	54.0
Medical and pharmaceuticals	34.5	35.8	3.7	378.3	380.5	0.6
Other non- food consumables	81.1	105.6	30.2	853.9	941.6	10.3
2. Intermediate goods	936.3	936.9	0.1	10,553.7	11,397.7	8.0
Fuel	453.6	255.9	-43.6	4,308.2	4,597.3	6.7
Textiles and textile articles	174.1	225.8	29.7	2,045.8	2,327.6	13.8
Chemical products	74.6	84.7	13.4	734.3	808.2	10.1
Plastic and articles thereof	47.5	58.7	23.6	515.2	608.0	18.0
Base metals	18.9	37.8	100.4	406.1	478.3	17.8
Paper and paperboard articles	37.5	49.7	32.7	379.7	490.1	29.1
Wheat and Maize	8.9	47.7	439.2	323.2	404.7	25.2
Fertilizer	16.0	24.2	51.7	238.7	272.4	14.1
Other	105.4	152.4	44.6	1,602.6	1,411.1	-12.0
3. Investment goods	310.9	437.1	40.6	4,252.7	4,152.2	-2.4
Machinery and Equipment	165.1	207.1	25.4	2,221.9	2,131.0	-4.1
Building materials	107.9	127.4	18.1	1,357.2	1,308.9	-3.6
Transport equipment	37.5	101.4	170.5	667.8	707.3	5.9
Other	0.4	1.2	175.4	5.8	4.9	-15.0
Total imports	1,551.1	1,797.5	15.9	18,002.8	19,416.8	7.9

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

Figure 1: Export and Import Performance



Trade Performance for the year 2014

On a cumulative basis, earnings from exports during 2014 grew by 7.0 per cent to US dollars 11,118 million, while expenditure on imports amounted to US dollars 19,417 million registering 7.9 per cent growth. The leading markets for merchandise exports of Sri Lanka during 2014 continued to be the USA, UK, India, Italy and Germany accounting for about 50 per cent of total exports, while the main import origins continued to be India, China, UAE, Singapore and Japan accounting for about 59 per cent of total imports.

Trade Balance

The trade deficit in December 2014 widened to US dollars 788 million in comparison to US dollars 563 million in December 2013. Accordingly, the trade deficit during 2014 widened by 9.1 per cent to US dollars 8,299 million over 2013.

Earnings from Tourism

Tourist arrivals recorded the highest in a month with 178,672 arrivals in December 2014. With the significant increase in tourist arrivals in December, the total for 2014 was recorded at 1,527,153, surpassing the 1.5 million milestone figure for the first time, resulting in a 19.8 per cent annual growth. India, China, UK, Germany and Maldives were the top five sources of tourist arrivals while the Western Europe as a region amounted to more than 30 per cent of the tourist arrivals during the year. A noteworthy increase in tourists from China, Russia and Japan was witnessed during the year with an annual increase of 136 per cent, 36 per cent and 31 per cent respectively.

Workers' Remittances

Workers' remittances surpassed US dollars 7 billion in 2014. Meanwhile, December 2014 recorded the highest ever monthly inflow of workers' remittances of US dollars 708.8 million compared to US dollars 602.8 million in December 2013. On a cumulative basis, workers' remittances recorded a total

annual inflow of US dollars 7,017.8 million with a growth of 9.5 per cent in 2014 compared to US dollars 6,407.0 million in 2013.

Financial Flows

Inflows to the financial account of the BOP were moderate during December 2014. Total foreign loan inflows to the Government amounted to US dollars 1,438.7 million for 2014 compared to US dollars 1,677.2 million in 2013, resulting in a decrease of 14.2 per cent. Net foreign inflows in the secondary market transactions in the Colombo Stock Exchange (CSE) were recorded at US dollars 12.4 million in December 2014. With the backdrop of foreign investment outflows from emerging markets in the latter part of 2014, total net inflows to the CSE (excluding primary market inflows in December) amounted to US dollars 162.6 million during 2014 compared to a net inflow of US dollars 269.9 million in 2013. Government securities market which recorded a net inflow position on cumulative basis during the first nine months in 2014 recorded a net outflow of US dollars 113.1 million during the year, amidst some outflows of foreign investments towards the latter part of the year. However, with increasing inflows into the Government securities market during 2015 so far, the net outflow position has declined to US dollars 4.9 million by 13 February 2015. Meanwhile, inflows to Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) during 2014 amounted to US dollars 450 million.

Overall BOP Position

For the year 2014, the BOP is estimated to have recorded a surplus of US dollars 1,375.7 million compared to the surplus of US dollars 985.4 million in 2013.

International Reserves

Sri Lanka's gross official reserves remained around US dollars 8.2 billion as of end December 2014. Meanwhile, total foreign assets, which include foreign assets of the banking sector, amounted to US dollars 9.9 billion. In terms of

months of imports, gross official reserves were equivalent to 5.1 months of imports as at end December 2014, while total foreign assets were equivalent to 6.1 months of imports.

Exchange Rate Behaviour

Sri Lanka rupee remained stable against the US dollar with a marginal depreciation of 0.2 per cent by end 2014. Based on cross currency exchange rate movements, the Sri Lanka rupee appreciated against the Japanese yen by 13.5 per cent, the euro by 13.2 per cent, the Canadian dollar by 8.5 per cent, the Australian dollar by 8.4 per cent, the pound sterling by 5.7 per cent and the Indian rupee by 2.1 per cent by end 2014. So far during 2015, the rupee has depreciated by 1.39 per cent against the US dollar mainly due to increasing imports.

Table 3: A Summary of External Sector Performance (a)

Category	December 2013 US\$ mn	December 2014 US\$ mn	Growth December (%)	Jan-Dec 2013 US\$ mn	Jan- Dec 2014 US\$ mn	Growth Jan- Dec (%)
Exports	987.7	1,009.8	2.2	10,394.3	11,117.6	7.0
Imports	1,551.1	1,797.5	15.9	18,002.8	19,416.8	7.9
Trade Balance	-563.4	-787.6	39.8	-7,608.5	-8,299.1	9.1
Earnings from Tourism	207.2	258.1	24.6	1,715.5 (b)	2,206.4	28.6
Inflows to Other Trade in Services (c)				2,230.5 (b)	2,447.9	9.7
Workers' Remittances	602.8	708.8	17.6	6,407.0 (b)	7,017.8	9.5
Inflows to the CSE (Net) (d)	2.7	12.4		269.9	162.6	
Inflows to the Government (e)	178.1	66.4	-62.7	4,170.8	4,794.0	14.9
of which,						
Treasury Bills and Bonds	28.8	64.2	122.9	2,433.8	1,775.5	-27.0
International Sovereign Bonds					1,500.0	
Long term Loans	129.4	0.0	-100.0	1,677.2	1,438.7	-14.2
Foreign Direct Investment (f)				874.3	1,188.0	35.9

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

(a) Provisional

(b) Revised

(c) Data available for the first nine months of each period

(d) Includes secondary and primary market transactions

(e) 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.

(f) Data available for the first nine months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the Board of Investment of Sri Lanka.