



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel : 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

Issued By Economic Research Department

Date 24.03.2015

External Sector Performance – January 2015

Overview

Sri Lanka's external sector remained stable during January 2015. Foreign currency inflows to the current account as well as the financial account of the Balance of Payments (BOP) contributed for the resilience in the external sector amidst a marginal increase in the trade deficit. The external sector is projected to strengthen further during the year with the expected reduction in expenditure on imports, higher inflows on account of tourism and worker's remittances as well as receipts to the government, the banking sector and other private corporates.

Export Performance

Earnings from exports amounted to US dollars 910 million in January 2015 registering a marginal increase of 0.6 per cent, year-on-year, led by industrial exports. Earnings from industrial exports, which represent about 77 per cent of total exports, increased marginally by 0.9 per cent mainly due to an increase in export of petroleum products followed by machinery and mechanical appliances and leather, travel goods and footwear. Export earnings from petroleum products increased by 67.3 per cent to US dollars 56 million in January 2015 mainly due to the increase in

export quantity of bunker and aviation fuel, despite the reduction in prices. Export earnings from machinery and mechanical appliances during January 2015 increased by 15.6 per cent to US dollars 27 million mainly due to the increase in electrical machinery and equipment while leather, travel goods and footwear exports increased by 70.6 per cent to US dollars 15 million due to the substantial increase in footwear. However, export earnings from food, beverages and tobacco declined by 44.4 per cent to US dollars 21 million, while export of rubber products declined by 12.3 per cent to US dollars 64 million due to a significant decline in rubber tyre exports despite the increase in exports of surgical and other gloves. Meanwhile, export earnings from textiles and garments declined marginally by 0.5 per cent to US dollars 410 million reflecting declines in garment exports to both traditional and non-traditional markets.

Meanwhile, earnings from agricultural exports declined marginally by 0.6 per cent due to lower international commodity prices. Earnings from tea exports recorded a decline of 2.2 per cent in value terms due to lower prices in spite of a volume increase of 11.9 per cent. Earnings from coconut products which showed an impressive growth since July 2013, declined in January 2015 due to the decline in non-kernel products exports. Further, earnings from sea food exports continued to decline in January 2015. However, earnings from spices increased by 73.8 per cent as a result of increase in both price and volume of certain categories including cinnamon and pepper, while minor agricultural products also increased compared to the corresponding month in 2014.

Table 1: Earnings from Exports

Category	January 2014 (USD mn)	January 2015 (USD mn)	Change (%)
1. Industrial exports	697.5	703.8	0.9
Textiles and garments	412.0	409.9	-0.5
Rubber products	73.2	64.2	-12.3
Gems, diamonds and jewellery	44.5	43.2	-2.8
Transport equipment	7.0	6.7	-5.5
Machinery and mechanical appliances	23.6	27.2	15.6
Petroleum products	33.2	55.5	67.3
Food beverages & tobacco	38.1	21.2	-44.4
Other	66.0	75.9	15.1
2. Agricultural exports	203.2	202.0	-0.6
Tea	116.1	113.5	-2.2
Coconut	22.5	19.2	-14.7
Sea Food	21.7	16.6	-23.8
Spices	17.9	31.1	73.8
Other	24.9	21.6	-13.4
3. Mineral and other	3.2	4.0	25.0
Total exports	903.9	909.8	0.6

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 marginally by 1.6 per cent, year-on-year, to US dollars 1,682 million in January 2015, reflecting increases in consumer and investment good imports. The major contribution to the increase in imports came from consumer goods mainly due to higher imports of rice and personal motor vehicles. Continuing the increasing trend observed since April 2014, the expenditure on rice imports increased to US dollars 55 million in January 2015 in comparison to US dollars 1.6 million in the corresponding month of 2014 due to lower domestic production. Meanwhile, personal motor vehicle imports increased by 115.8 per cent, due to the impact of changes in the import tariff structure for motor vehicles as well as the depreciation of the Japanese Yen. The increase in investment goods was mainly led by imports of transport equipment with significant increase in imports of buses. Import expenditure on machinery and equipment also rose significantly with

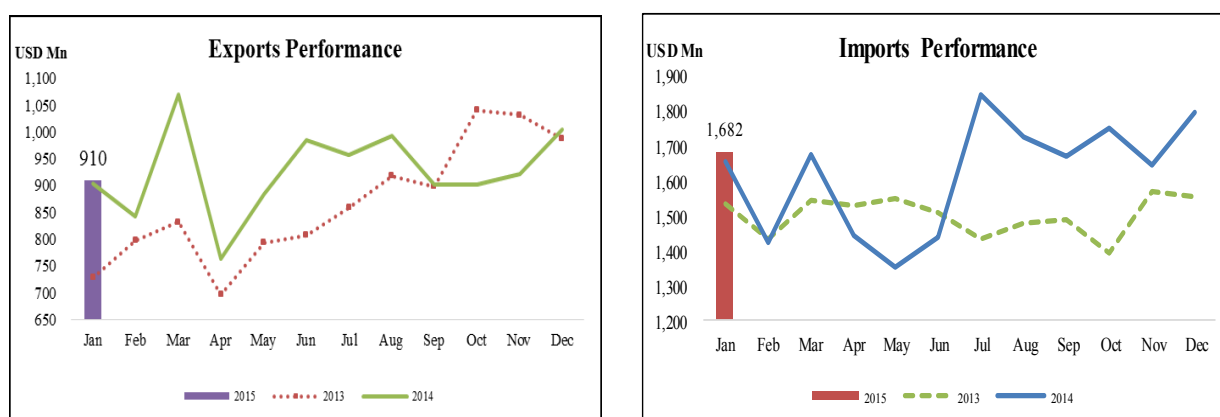
higher contribution from imports of engineering equipment. Meanwhile, intermediate goods declined by 18.7 per cent mainly due to the decline in expenditure on fuel imports. Import expenditure on fuel declined significantly by 41.1 per cent due to the combined effect of lower prices and volumes imported of both crude oil and refined petroleum products. Lower expenditure on wheat and maize and mineral products also contributed significantly to decline in the value of intermediate goods imports. However, expenditure on fertiliser imports showed a significant increase due to the increase in volumes substantially despite a decline in prices. Expenditure on base metals and rubber and articles thereof also increased substantially.

Table 2: Expenditure on Imports

Category	January 2014 (USD mn)	January 2015 (USD mn)	Change (%)
1. Consumer goods	253.6	397.3	56.7
Food and Beverages	109.9	169.5	54.3
Rice	1.6	55.0	3,418.1
Dairy products	38.2	14.5	-62.2
Other food and beverages	70.1	100.1	42.8
Other consumer goods	143.7	227.8	58.5
Vehicles	46.1	99.5	115.8
Medical and pharmaceuticals	32.2	36.6	13.8
Other non- food consumables	65.4	91.7	40.2
2. Intermediate goods	1,034.8	841.6	-18.7
Fuel	491.2	289.2	-41.1
Textiles and textile articles	193.6	200.0	3.3
Chemical products	68.5	74.5	8.8
Plastic and articles thereof	51.8	50.8	-2.0
Base metals	32.4	49.5	52.8
Paper and paperboard articles	35.7	38.4	7.6
Wheat and Maize	39.8	21.3	-46.5
Fertiliser	3.5	10.1	188.3
Other	118.3	107.9	-8.8
3. Investment goods	366.3	441.8	20.6
Machinery and Equipment	196.9	240.6	22.2
Building materials	121.9	109.1	-10.5
Transport equipment	47.2	91.1	93.2
Other	0.3	1.0	257.1
Total imports	1,655.5	1,681.6	1.6

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

Figure 1: Export and Import Performance



Trade Balance

The trade deficit in January 2015 widened to US dollars 772 million in comparison to US dollars 752 million in January 2014.

Earnings from Tourism

Tourist arrivals grew at a healthy rate of 6.6 per cent, year-on-year, to 156,246 in January 2015 from 146,575 in January 2014. India, UK, China, Germany and Russia were the top five sources of tourist arrivals accounting for 43.3 per cent of total arrivals in January 2015. Earnings from tourism¹ are estimated to have increased by 6.6 per cent to US dollars 248.7 million in January 2015 from US dollars 233.3 million in January 2014.

Workers' Remittances

In January 2015, workers' remittances stood at US dollars 523.5 million, declining by 5.8 per cent from US dollars 555.5 million a year earlier. This decline was registered after a record-high inflow of US dollars 708.8 million in December 2014. However, workers' remittances are expected to increase during the New Year festival season.

¹ Highly provisional and may be revised as Sri Lanka Tourism Development Authority releases their survey results on average stay period and average spending per day estimates for 2015.

Financial Flows

Long term loans obtained by the government during January 2015 amounted to US dollars 57.7 million, compared to US dollars 112.2 million during the corresponding period in 2014. Meanwhile, government investments in government securities market registered an outflow of US dollars 12.8 million, on a net basis, by 13th March 2015. Further, foreign investments in secondary market in the Colombo Stock Exchange (CSE) recorded a net inflow of US dollars 19.6 million by 13th March 2015.

Overall BOP Position

In January 2015, the BOP is estimated to have recorded a deficit of US dollars 696.5 million, compared to the surplus of US dollars 732.9 million in the corresponding period of 2014.

International Reserves

Notwithstanding outflows on account of foreign currency debt service payments amounting to US dollars 930 million (including IMF-SBA payments and contributing partly to settle the sovereign bond), Sri Lanka's gross official reserves estimated to be US dollars 7.4 billion as at end February 2015. Gross official reserves were equivalent to 4.5 months of imports. Meanwhile, total foreign assets, which include gross official reserves and foreign assets of deposit taking corporations amounted to US dollars 8.9 billion as at end January 2015, equivalent to 5.5 months of imports. As gross official reserves have declined compared to end 2014 level of US dollars 8.2 billion, several initiatives have been taken by the government and the Central Bank to build up foreign currency reserves of the country to a higher level. Accordingly, issuance of Sri Lanka Development Bonds, proceeds pending from the currency swap at US dollars 1.5 billion between Sri Lanka and India and other regular investment inflows are some of these initiatives that would improve gross official reserves of the country to a higher level during next few months.

Exchange Rate Behaviour

During the year up to 13th March, the rupee has depreciated by 1.39 per cent against the US dollar, where exchange rate stability was maintained through

normal intervention in the domestic foreign exchange market as per the current policy. However, based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 13.1 per cent, the pound sterling by 3.2 per cent, the Japanese yen by 0.3 per cent, the Canadian dollar by 8.2 per cent and the Australian dollar by 5.2 per cent, while depreciating against the Indian rupee by 2.7 per cent during this period.

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

Category	January 2014 US\$ mn	January 2015 US\$ mn	Change (%)
Exports	903.9	909.8	0.6
Imports	1,655.5	1,681.6	1.6
Trade Balance (surplus+)/deficit(-)	-751.5	-771.9	2.7
Earnings from Tourism	233.3(b)	248.7	6.6
Workers' Remittances	555.5	523.5	-5.8
Inflows to the CSE (Net) (c)	12.2	0.9	-92.6
Inflows to the Government (d)	1,375.1	147.6	-89.3
of which,			
Treasury Bills and Bonds	260.5	81.2	-68.8
International Sovereign Bonds	1,000.0	-	-
Long term Loans	112.2	57.7	-48.6

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

(a) Provisional

(b) Revised

(c) Includes secondary and primary market transactions

(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.