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Press Release

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External Sector Performance – February 2015

Overview

Sri Lanka's external sector remained stable in February 2015. Although the deficit in trade account in February 2015 narrowed compared to the previous month, it expanded at a higher rate compared to February 2014 as the growth in imports outweighed the growth in exports. Meanwhile, tourist earnings and workers' remittances continued to be main sources of inflows improving the current account balance of the Balance of Payments. Inflows to the financial account moderated mainly due to the deceleration in investment activities with the reviewing of major infrastructure projects of the public sector.

Export Performance

Earnings from exports increased by 5.8 per cent, year-on-year, to US dollars 891 million in February 2015, led by industrial products, particularly textiles and garments. Earnings from industrial exports, which represent about 77 per cent of total exports, improved mainly due to increase in exports of textiles and garments followed by petroleum products, and gems, diamonds and jewellery. Export

earnings from textiles and garments, which represent about 47 per cent of total exports, increased by 6 per cent during the month reflecting improved exports to both traditional and non-traditional markets. Export earnings from petroleum products increased at a higher rate reflecting the increase in export quantity of bunker and aviation fuel by 145.0 per cent, despite the reduction in prices by 51.1 per cent. However, export earnings from rubber products declined due to a significant decline in rubber tyre exports despite the increase in exports of surgical and other gloves. Meanwhile, earnings from agricultural exports recorded a marginal increase during the month, with significant increase in exports of spices and coconut products amidst the decline in exports of sea food and tea. Spices exports recorded a significant growth reflecting substantial performance in pepper and cloves. Income from exports of coconut products increased mainly due to higher prices prevailed for coconut products along with the increased level of desiccated coconut and coconut oil exports. However, seafood exports declined significantly due to restrictions on access to EU, the main market for Sri Lankan seafood products from mid-January 2015. Tea export earnings continued to decline showing a notable drop in prices. The subdued demand from Russia, the main single export market for Sri Lankan tea, despite the higher demand from other main markets also contributed for this decline.

Cumulative export earnings during the first two months of 2015 amounted to US dollars 1,801 million with an increase of 3.1 per cent while the leading markets for merchandise exports of Sri Lanka were the USA, UK, India, Germany and Italy accounting for about 51 per cent of total exports.

Table 1: Earnings from Exports

Category	February 2014 (USD mn)	February 2015 (USD mn)	Change (%)	Jan-Feb 2014 (USD mn)	Jan-Feb 2015 (USD mn)	Change (%)
1. Industrial exports	637.9	683.4	7.1	1,335.4	1,387.2	3.9
Textiles and garments	396.2	419.9	6.0	808.2	829.7	2.7
Rubber products	70.2	67.5	-3.9	143.4	131.7	-8.2
Gems, diamonds and jewellery	26.9	31.6	17.5	71.4	74.8	4.8
Petroleum products	29.5	35.2	19.5	62.7	90.8	44.8
Printing industry products	2.1	0.8	-64.0	2.7	4.8	76.0
Leather, travel goods and footwear	11.4	10.8	-4.8	20.3	26.1	28.4
Other	101.6	117.6	15.8	226.7	229.4	1.2
2. Agricultural exports	201.2	202.9	0.8	404.3	404.8	0.1
Tea	115.6	108.4	-6.2	231.7	221.9	-4.2
Coconut	23.5	30.8	30.9	46.0	50.0	8.6
Sea food	21.0	11.2	-46.8	42.7	27.7	-35.1
Spices	16.7	30.9	84.8	34.6	62.0	79.1
Other	24.4	21.7	-11.2	49.3	43.3	-12.3
3. Mineral and other	3.3	5.1	55.1	6.5	9.1	40.1
Total exports	842.4	891.4	5.8	1,746.3	1,801.1	3.1

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 7.7 per cent, year-on-year, to US dollars 1,530 million in February 2015, reflecting significant increase in consumer goods imports followed by investment goods. In order to meet the higher demand in the festive season, most of consumer goods imports, particularly, imports of clothing and accessories, vegetables and rice increased during the month. Further, imports of motor vehicles with lower engine capacity and motor cycles increased considerably during the month contributing to the growth in motor vehicle imports. The increase in investment goods imports was mainly led by imports of building materials such as iron and steel and cement and, transport equipment such as buses and auto-

trishaws. Import expenditure on machinery and equipment also rose marginally with higher contribution from imports of telecommunication devices. However, import expenditure on intermediate goods declined mainly due to the sharp decline in expenditure on fuel imports. The decline in fuel imports was supported by the drop in import prices of both crude oil and refined petroleum products with the lower volume of refined petroleum imports. Decline in wheat and maize imports also contributed to the decline in the value of intermediate goods imports. However, import expenditure on textiles and textile articles, chemical products, rubber and rubber articles and base metals increased during the month of February 2015 compared to corresponding month of the previous year.

Cumulative import expenditure during the first two months of 2015 amounted to US dollars 3,211 million with an increase of 4.4 per cent while the main import origins were India, China, UAE, Japan and Oman accounting for about 61 per cent of total imports.

Figure 1: Export and Import Performance

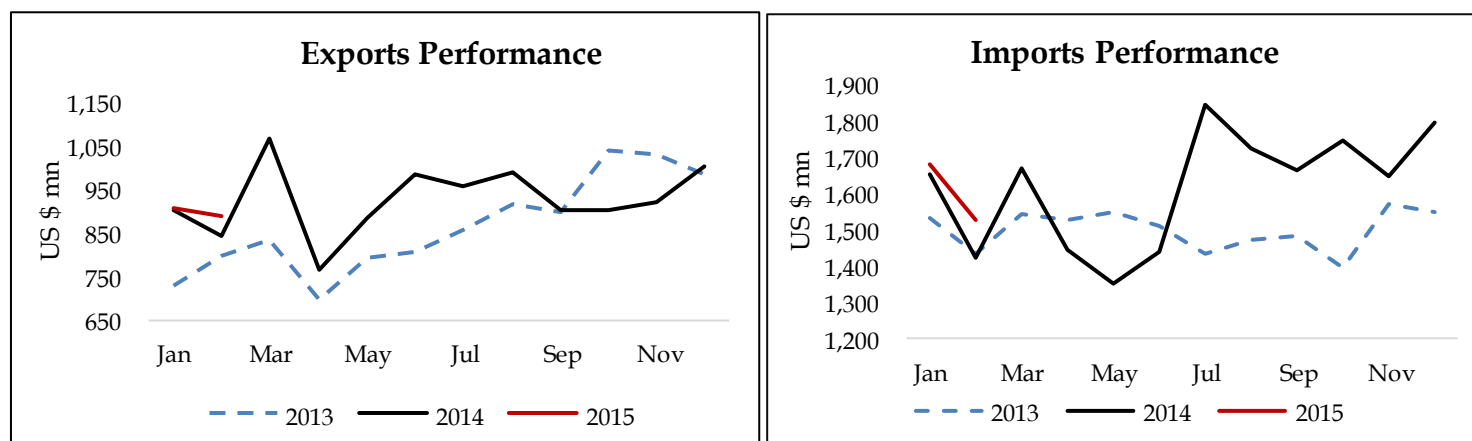


Table 2: Expenditure on Imports

Category	February 2014 (USD mn)	February 2015 (USD mn)	Change (%)	Jan-Feb 2014 (USD mn)	Jan-Feb 2015 (USD mn)	Change (%)
1. Consumer goods	223.8	352.5	57.5	477.4	749.8	57.1
Food and beverages	95.0	145.9	53.6	204.9	315.5	54.0
Dairy products	24.2	23.6	-2.5	62.4	38.0	-39.1
Other food and beverages	70.8	122.4	72.8	142.5	277.5	94.7
Non-food consumer goods	128.8	206.5	60.3	272.5	434.3	59.4
Vehicles	43.1	58.8	36.4	89.2	158.2	77.4
Medical and pharmaceuticals	28.6	33.5	16.9	60.8	70.1	15.3
Other non- food consumables	57.1	114.3	100.1	122.5	206.0	68.1
2. Intermediate goods	903.2	814.3	-9.8	1,937.9	1,656.0	-14.5
Fuel	496.6	264.4	-46.8	987.8	553.6	-44.0
Textiles and textile articles	152.5	211.1	38.4	346.1	411.1	18.8
Chemical products	51.2	75.3	47.2	119.6	149.7	25.2
Wheat and Maize	9.9	3.1	-68.8	49.7	24.4	-50.9
Fertiliser	20.0	19.8	-0.9	23.5	30.0	27.3
Rubber and articles thereof	9.5	29.7	213.9	21.2	52.0	145.3
Other	163.5	210.9	29.0	390.0	435.1	11.6
3. Investment goods	292.6	362.3	23.8	658.8	804.2	22.1
Machinery and equipment	171.1	173.4	1.4	368.0	414.0	12.5
Building materials	81.8	118.1	44.5	203.7	227.3	11.6
Transport equipment	39.6	70.3	77.7	86.8	161.5	86.1
Other	0.1	0.4	229.8	0.4	1.4	248.9
4. Unclassified imports	0.9	0.4	-50.6	1.7	1.3	-25.8
Total imports	1,420.4	1,529.5	7.7	3,075.9	3,211.2	4.4

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

Trade Balance

The deficit in the trade account in February 2015 widened by 10.4 per cent to US dollars 638 million in comparison to US dollars 578 million in February 2014. Accordingly, during the first two months of 2015, the cumulative deficit in the trade account amounted to US dollars 1,410 million.

Earnings from Tourism

Tourist arrivals recorded a growth of 16.7 per cent, year-on-year to 165,541 in February 2015 from 141,878 in February 2014. Earnings from tourism¹ are estimated to have increased by 16.7 per cent to US dollars 263.5 million in February 2015, compared to US dollars 225.9 million in February 2014. The top five sources of tourist arrivals in February 2015 were India, China, UK, Germany and France accounting for about 94.2 per cent of tourist arrivals during the month. Meanwhile, tourist arrivals increased by 18.0 per cent, year-on-year, to 157,051 in March 2015, raising the total number of tourists during the first quarter of the year to 478,838 which grew by 13.6 per cent, year-on-year. Moreover, Earnings from tourism increased by 18.0 per cent to US dollars 250.0 million in March 2015, from US dollars 211.8 million in March 2014. On a cumulative basis, earnings from tourism during the first quarter of 2015 recorded a growth of 13.6 per cent, to US dollars 762.3 million, compared to the corresponding period of 2014.

Workers' Remittances

In February 2015, workers' remittances increased by 1.9 per cent to US dollars 511.6 million from US dollars 502.0 million in February 2014. During the first two months of 2015, workers' remittances amounted to US dollars 1,035.2 million, declining marginally by 2.1 per cent from US dollars 1,057.5 million during the same period of the previous year. However, these remittances are expected to have increased at a higher rate during the New Year festival season, following the seasonal pattern of remitting money by Sri Lankans working abroad.

Financial Flows

For the first two months of 2015, long term loans obtained by the Government amounted to US dollars 140.6 million, which is a decrease of 31.4 percent from the comparable period in 2014. Meanwhile, foreign investments in government securities market registered an inflow of US dollars 20.9 million, on a net basis, by 06th May 2015.

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.

Further, foreign investments in secondary market of the Colombo Stock Exchange (CSE) recorded a net inflow of US dollars 24.1 million by 06th May 2015.

Overall BOP Position

The overall BOP is estimated to have recorded a deficit of US dollars 692.1 million during the first two months of 2015, compared to a surplus of US dollars 809.9 million recorded during the corresponding period of 2014.

International Reserves

Notwithstanding outflows on account of foreign currency debt service payments amounting to US dollars 1.5 billion (including IMF-SBA payments and contributing partly to settle the sovereign bond), Sri Lanka's gross official reserves estimated to be US dollars 6.8 billion, equivalent to 4.3 months of imports as at end March 2015. Meanwhile, the same is estimated to have increased to US dollars 7.4 billion by 30 April 2015 mainly with the proceeds of US dollars 400 million from the currency swap agreement between Sri Lanka and India. Further, total foreign assets, which include gross official reserves and foreign assets of deposit taking corporations, amounted to US dollars 9.0 billion as at end February 2015, equivalent to 5.5 months of imports. The Central Bank of Sri Lanka observes that reserves are increasing since beginning of April 2015, reversing the declining trend experienced during the first quarter of the year. Subsequently, gross official reserves are expected to increase further to a higher level during next few months with the expected proceeds of the balance portion of US dollars 1.1 billion from the currency swap agreement between Sri Lanka and India together with other regular investment inflows.

Exchange Rate Behaviour

During the year, up to 05th May, the rupee has depreciated by 1.5 per cent against the US dollar. However, based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 7.5 per cent, the pound sterling by 1.4 per cent, the Canadian dollar by 2.9 per cent and the Australian dollar by 3.1 per cent, while depreciating against the Indian rupee by 1.2 per cent and Japanese Yen by 0.9 per cent during this period.

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

Category	February 2014 US\$ mn	February 2015 US\$ mn	Change (%)	Jan- Feb 2014 US\$ mn	Jan- Feb 2015 US\$ mn	Change (%)
Exports	842.4	891.4	5.8	1,746.3	1,801.1	3.1
Imports	1,420.4	1,529.5	7.7	3,075.9	3,211.2	4.4
Trade Balance (surplus+)/deficit(-)	-578.1	-638.2	10.4	-1,329.6	-1,410.0	6.0
Earnings from Tourism	225.9 (b)	263.5	16.7	459.2(b)	512.3	11.6
Workers' Remittances	502.0	511.6	1.9	1,057.5	1,035.2	-2.1
Inflows to the CSE (Net) (c)	-38.9	10.5	126.9	-27.1	11.3	141.8
Inflows to the Government (d)	213.9	160.6	-24.9	1,588.9	353.0	-77.8
of which,						
Treasury Bills and Bonds	120.5	109.2	-9.4	381.0	190.4	-50.0
International Sovereign Bonds	-	-	-	1,000.0	-	
Long term Loans	92.7	51.3	-44.6	204.9	153.7	-25.0

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.