

External Sector Performance – September 2014

Overview

External sector sustained its growth momentum with expanding external trade activities in September 2014. Since July 2014, the expenditure on imports continued to rise reflecting the rebound of investment goods imports in particular. As the cumulative earnings on exports outweighed the cumulative expenditure on imports, the trade deficit during the first nine months of 2014 narrowed, while tourist earnings and workers' remittances continued to be stable sources of inflows improving the current account of the Balance of Payments (BOP). Inflows to the financial account in the form of project loans to the government and inflows to the banking sector continued to strengthen the BOP resulting in a healthy surplus in the overall BOP during the first nine months of 2014, despite some volatility in the government securities and equity markets.

Export Performance

Earnings from exports increased by 0.5 per cent, year-on-year, in September 2014 to US dollars 903 million while the cumulative earnings increased by 13.0 per cent to US dollars 8,288 million during the first nine months of 2014. The largest contribution to the export growth in September 2014 was from textiles and garments followed by coconut and printing industry products. Export earnings of textiles and

garments grew by 4.4 per cent in September 2014 supported by a substantial improvement in exports of outerwear. Further, the increase of earnings of coconut exports was mainly led by the significant increase in kernel product exports. However, some major exports such as tea, spices, precious metals and gem and diamonds declined during the month under consideration, on year-on-year basis, mainly due to the higher exports recorded in September 2013. Further, export earnings of petroleum products, particularly on bunkering and aviation fuel were significantly affected by the heightened competition from major regional players.

Major export destinations during January to September 2014 were USA, UK, Italy, India and Germany accounting for around 50 per cent of total exports.

Table 1. Earnings from Exports

Category	September 2013 (USD mn)	September 2014 (USD mn)	Growth (%)
1. Industrial exports	646.3	667.9	3.4
Textiles and garments	386.9	403.8	4.4
Rubber products	73.3	70.5	-3.8
Gems, diamonds and jewellery	41.5	33.0	-20.5
Transport equipment	4.9	5.5	11.9
Machinery and mechanical appliances	25.0	29.3	17.1
Petroleum products	30.5	19.4	-36.3
Food beverages & tobacco	18.8	24.1	28.1
Other	65.3	82.3	26.0
2. Agricultural exports	238.9	231.9	-2.9
Tea	140.3	133.6	-4.8
Coconut	19.1	33.4	75.3
Sea Food	17.7	17.7	0.0
Spices	40.6	27.4	-32.5
Other	21.2	19.7	-7.0
Total exports	899.0	903.3	0.5

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 12.2 per cent, year-on-year, to US dollars 1,667 million in September 2014, while on a cumulative basis, imports grew by 5.4 per cent to US dollars 14,222 million during the first nine months of 2014. The increase in import expenditure in September 2014 was mainly due to the significant increase in imports of transport equipment particularly a dredger vessel followed by imports of vehicles such as motor cycles and motor cars for personal use. Further, rice imports also increased significantly during the month as a result of a shortfall in domestic rice production during the year. However, the expenditure on fuel imports declined significantly during the month due to a sharp reduction in crude oil imports as the available crude oil stocks were used for the refineries during the month. As a result of substantial decline in volume of fertiliser imports, the import expenditure on fertiliser declined during the month. The import expenditure on investment goods showed a broad based increase except the decline in imports of machinery and equipment due to lower imports of engineering equipment.

During the first nine months of 2014, the main import origins were India, China, UAE, Singapore and Japan accounting for about 60 per cent of total imports.

Figure 1: Export and Import Performance

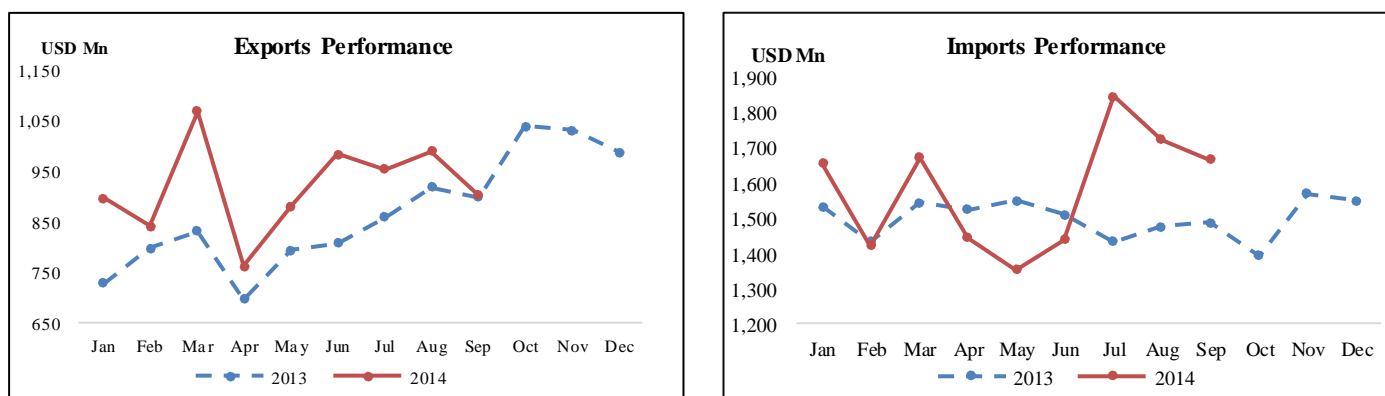


Table 2. Expenditure on Imports

Category	September 2013 (USD mn)	September 2014 (USD mn)	Growth (%)
1. Consumer goods	233.0	365.5	56.9
Food and Beverages	84.6	151.7	79.4
Dairy products	13.9	26.7	92.9
Other food and beverages	70.7	125.0	76.8
Other consumer goods	148.5	213.8	44.0
Vehicles	51.5	97.0	88.2
Medical and pharmaceuticals	31.1	32.1	3.4
Other non- food consumables	65.9	84.7	28.5
2. Intermediate goods	917.2	870.7	-5.1
Fuel	389.1	295.3	-24.1
Textiles and textile articles	174.0	199.1	14.4
Chemical products	59.7	68.3	14.3
Plastic and articles thereof	43.5	51.9	19.2
Base metals	35.8	39.8	11.4
Paper and paperboard articles	34.0	42.4	25.0
Wheat and Maize	24.4	38.9	59.7
Other	156.8	134.9	-14.0
3. Investment goods	335.3	428.8	27.9
Machinery and Equipment	197.1	177.2	-10.1
Building materials	101.8	111.3	9.4
Transport equipment	35.9	140.1	290.0
Other	0.5	0.2	-63.5
Total imports	1,486.3	1,667.5	12.2

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 764 million in September 2014, compared to US dollars 587 million in September 2013. However, on a cumulative basis, trade deficit during the first nine months of 2014 narrowed by 3.6 per cent compared to the corresponding period in 2013.

Earnings from Tourism

Tourist arrivals continued to record an impressive growth of 16.8 per cent, year-on-year in September 2014, with 105,535 tourists arriving during the month. Consequently, the cumulative tourist arrivals in the first nine months grew by 22.4 per cent to 1,107,178 compared to the corresponding period of 2013. Earnings from tourism are estimated to be US dollars 152 million in September 2014 compared to US dollars 122 million recorded in September 2013. The substantial increase in tourist arrivals as well as the increase in estimated average spending per night resulted in the cumulative earnings from tourism recording a growth of 31.4 per cent to US dollars 1.6 billion during the first nine months of 2014 compared to US dollars 1.2 billion during the same period in 2013.

Workers' remittances

Workers' remittances recorded an increase of 3.1 per cent, year-on-year, amounting to US dollars 575 million in September 2014 compared to US dollars 558 million recorded in September 2013. Cumulative inflows from workers' remittances stood at US dollars 5,090 million for the first nine months of 2014, a growth of 9.1 per cent compared to the corresponding period of 2013.

Financial Flows

For the first nine months of 2014, long term loans obtained by the Government amounted to US dollars 1,232 million, which is a decrease of 5.7 percent from the comparable period in 2013. Net inflows to the Government securities market from January to end September 2014 amounted to US dollars 100 million, despite some outflows recorded in foreign investment in Government securities during August and September. Meanwhile, foreign investments in the Colombo Stock Exchange (CSE) recorded a net outflow of US dollars 9.5 million in September 2014, although, on a cumulative basis, foreign investment in the CSE stood at US dollars 107 million by end October 2014. Further, inflows to Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) during the first nine months in 2014 amounted to US dollars 450 million. This includes a major inflow of US dollars 250 million

received from the international bond issuance by the National Savings Bank during September 2014.

Overall BOP Position

With continuous inflows to the current and capital accounts, the overall balance of the BOP is estimated to have recorded a surplus of US dollars 1,996 million during the first nine months of 2014 compared to a surplus of US dollars 585 million in the corresponding period of 2013.

International Reserves

Notwithstanding outflows on account of foreign debt service payments amounting to US dollars 1,886 million and IMF-SBA payments amounting to US dollars 594 million, Sri Lanka's gross official reserves continued to remain high at US dollars 8.8 billion as of end September 2014. Meanwhile total foreign assets, which include foreign assets of the banking sector, amounted to US dollars 10.2 billion. In terms of months of imports, gross official reserves were equivalent to 5.6 months of imports as at end September 2014, while total foreign assets were equivalent to 6.5 months of imports.

Exchange Rate Behaviour

The Sri Lankan rupee remained stable against the US dollar with a marginal depreciation of 0.06 per cent during the year to 03 November 2014. Based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 10.5 per cent, the Japanese yen by 7.3 per cent, the pound sterling by 3.2 per cent, the Canadian dollar by 5.9 per cent , Australian Dollar by 2.2 and the Chinese renminbi by 0.8 per cent. Meanwhile, the Sri Lankan rupee depreciated against the Indian rupee by 0.9 per cent.

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

Category	September 2013 US\$ mn	September 2014 US\$ mn	Growth September (%)	Jan- September 2013 US\$ mn	Jan- September 2014 US\$ mn	Growth Jan- September (%)
Exports	899.0	903.3	0.5	7,333.4	8,288.2	13.0
Imports	1,486.3	1,667.5	12.2	13,488.3	14,222.3	5.4
Trade Balance	-587.3	-764.1	30.1	-6,154.9	-5,934.1	-3.6
Earnings from Tourism	121.6	152.5	25.4	1,217.0(b)	1,599.7	31.4
Inflows to Other Trade in Services (c)				1,469.6 (b)	1,670.5	13.7
Workers' Remittances	557.8(b)	575.0	3.1	4,663.4(b)	5,089.7	9.1
Inflows to the CSE (Net)	11.1	-9.5		162.9	47.2	
Inflows to the Government (d)	182.9	119.3	-34.8	3,619.2	4,410.6	21.9
of which,						
Treasury Bills and Bonds	29.6	63.6	114.5	2,287.3	1,610.4	-29.6
International Sovereign Bonds					1,500.0	
Long term Loans	151.0	54.9	-63.7	1,307.0	1,232.5	-5.7
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.