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Press Release

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External Sector Performance – March 2015

Overview

The external sector strengthened with the trade deficit contracting in March 2015. Earnings from exports remained largely unchanged, while expenditure on imports declined during the month compared to the previous year. During the first quarter of 2015, the trade deficit contracted marginally compared to the corresponding period of 2014 due to the increase in export earnings at a higher percentage than the increase in import expenditure. The contraction of the trade deficit, higher inflows to the services account with increased tourist earnings and inflows of workers' remittances strengthened the current account while inflows to the financial account continued to moderate.

Export Performance

Earnings from exports declined marginally by 0.9 per cent, year-on-year, to US dollars 1,060 million in March 2015 from US dollars 1,070 million recorded in March 2014, the highest monthly earnings in 2014. The largest contribution to the decline in exports was from tea followed by precious metals and textiles and garments which

are categorised under agricultural exports, mineral exports and industrial exports, respectively. Earnings from tea exports, which declined from August 2014, year on year, continued to decline by 27 per cent in March 2015 as well, reflecting continuous decline in demand from major tea importers especially Russia and the Middle East, which were severely affected by the significant decline in international oil prices. Earnings from both precious metals and textiles and garments exports reflected declines mainly due to significantly higher level of exports recorded in the corresponding month of 2014. Meanwhile, export earnings from sea food declined by 36.5 per cent during the month mainly caused by 77.6 per cent decline in sea food exports to the EU market, the main sea food market of Sri Lanka. Sri Lankan sea food exports to the EU market were restricted effective from mid-January 2015 by the European Union. Meanwhile, export earnings from spices increased by 63.3 per cent due to the higher export volumes, especially pepper and cloves. On cumulative basis, export earnings during the first three months of 2015 increased by 1.6 per cent, year-on-year, to US dollars 2,862 million. The leading markets for merchandise exports of Sri Lanka during the first three months of 2015 were the USA, UK, India, China and Germany accounting for about 51 per cent of total exports.

Table 1: Earnings from Exports

Category	March 2014 (USD mn)	March 2015 (USD mn)	Change (%)	Jan-Mar 2014 (USD mn)	Jan-Mar 2015 (USD mn)	Change (%)
1. Industrial exports	778.7	841.4	8.0	2,114.2	2,228.6	5.4
Textiles and garments	456.7	428.2	-6.2	1,264.8	1,258.0	-0.5
Petroleum products	33.4	21.6	-35.4	96.1	112.3	16.9
Rubber products	81.0	76.1	-6.0	224.4	207.8	-7.4
Transport equipment	33.6	152.8	355.4	46.0	165.4	259.9
Leather, travel goods and footwear	11.6	14.4	24.7	31.9	40.5	27.1
Animal fodder	6.1	7.5	24.0	17.5	20.1	14.4
Other	156.5	140.8	-10.0	433.4	424.6	-2.0
2. Agricultural exports	256.7	214.1	-16.6	661.0	618.9	-6.4
Tea	155.3	113.4	-27.0	387.0	335.3	-13.3
Spices	17.7	28.9	63.3	52.3	90.8	73.8
Minor agricultural products	14.5	17.0	17.2	38.2	43.6	14.3
Sea Food	24.7	15.7	-36.5	67.4	43.4	-35.6
Other	44.5	39.1	-12.0	116.1	105.7	-9.0
3. Mineral and other	34.7	4.9	-85.9	41.2	14.0	-66.0
Total exports	1,070.1	1,060.4	-0.9	2,816.4	2,861.5	1.6

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 declined by 5.5 per cent, year-on-year, to US dollars 1,581 million in March 2015. This was the first decline since July 2014 and largely attributable to the 66 per cent decline in expenditure on fuel imports. Non-importation of crude oil during the month and record low level of refined petroleum product prices in the international market caused for this substantial decline in the expenditure on fuel imports. Import expenditure on fertiliser and dairy products, which declined by 48.8 per cent and 43.0 per cent, respectively, also contributed significantly for the decline in import expenditure. However, higher imports of personal motor cars in both value and volume terms, and import of a light vessel contributed mainly for the increase in consumer goods and investment goods, respectively. On cumulative basis, expenditure on imports during first three months of 2015 increased marginally by 0.9 per cent, year-on-year, to US dollars 4,792

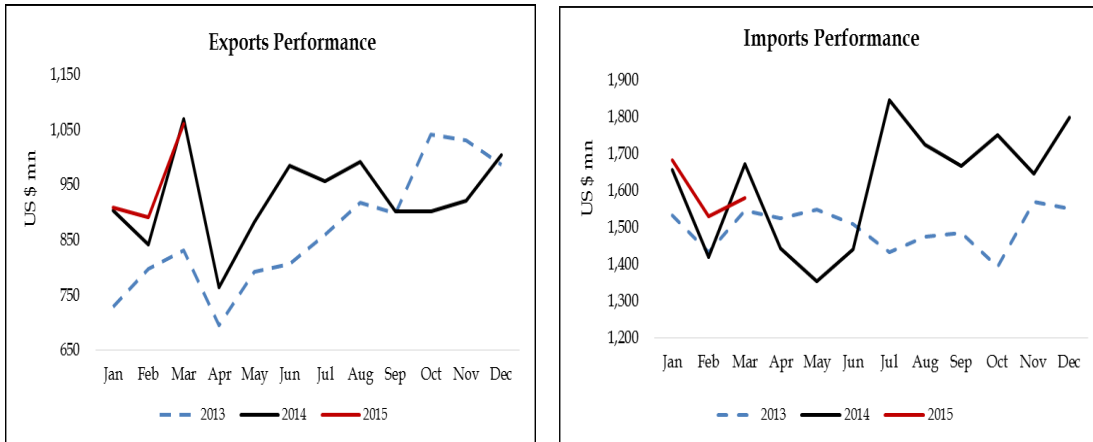
million mainly led by consumer goods imports followed by investment goods imports. During the period of January - March 2015, the main import origins were India, China, Japan, UAE and Singapore accounting for about 61 per cent of total imports.

Table 2: Expenditure on Imports

Category	March 2014 (USD mn)	March 2015 (USD mn)	Change (%)	Jan-Mar 2014 (USD mn)	Jan-Mar 2015 (USD mn)	Change (%)
1. Consumer goods	303.0	441.6	45.7	780.4	1,191.3	52.6
Food and Beverages	133.0	147.3	10.8	337.9	462.8	37.0
Dairy products	38.0	21.7	-43.0	100.4	59.7	-40.5
Other food and beverages	95.0	125.7	32.3	237.5	403.1	69.7
Non-food consumer goods	170.0	294.2	73.0	442.5	728.5	64.6
Vehicles	59.4	132.3	122.6	148.6	290.5	95.5
Rubber products	7.3	7.0	-3.7	19.9	25.4	27.8
Other non- food consumables	103.3	154.9	49.9	274.1	412.6	50.6
2. Intermediate goods	1,045.4	741.0	-29.1	2,983.3	2,397.0	-19.7
Fuel	457.6	155.5	-66.0	1,445.4	709.1	-50.9
Fertiliser	48.4	24.8	-48.8	71.9	54.7	-23.9
Mineral products	32.4	15.1	-53.3	73.6	44.5	-39.5
Diamonds and precious stones and metals	15.7	30.7	95.2	32.0	56.7	77.4
Wheat and Maize	39.4	52.5	33.2	89.1	76.8	-13.7
Unmanufactured tobacco	4.9	12.5	157.0	12.7	27.7	118.1
Other	447.1	450.0	0.7	1,258.7	1,427.3	13.4
3. Investment goods	323.1	397.5	23.0	981.9	1,201.7	22.4
Machinery and Equipment	179.3	172.3	-3.9	547.3	586.3	7.1
Building materials	101.5	88.7	-12.6	305.2	316.0	3.5
Transport equipment	41.9	136.3	225.0	128.7	297.8	131.4
Other	0.3	0.3	-16.1	0.7	1.7	129.9
4. Unclassified	0.6	0.8	48.0	2.3	2.1	-7.3
Total imports	1,672.1	1,580.9	-5.5	4,748.0	4,792.1	0.9

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 March 2015 contracted by 13.5 per cent, year on year, following eight consecutive expansions recorded from July 2014. In cumulative basis, trade deficit during the first three months of 2015 declined by 0.1 per cent to US dollars 1,931 million.

Earnings from Tourism

Tourist arrivals grew at a rate of 18.0 per cent, year-on-year, to 157,051 in March 2015. Accordingly, tourist arrivals during the first quarter of the year amounted to 478,838 recording a year-on-year growth of 13.6 per cent. Earnings from tourism¹ are estimated to have recorded a year-on-year growth of 13.6 per cent to US dollars 762.3 million during the first three months of 2015, compared to the cumulative earning of US dollars 671.0 million during the corresponding period of 2014. The top five sources of tourist arrivals in March 2015 were India, UK, Germany, China and France, accounting for 49.3 per cent of total tourist arrivals during the month.

Tourist arrivals recorded a growth of 8.5 per cent, year-on year, in April 2015, with 122,217 tourists arriving during the month. Consequently, the cumulative tourist arrivals in the first four months in 2015 increased by 12.5 per cent to 601,055

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.

compared to the corresponding period of 2014. The cumulative earnings from tourism increased to US dollars 956.8 million during the first four months of 2015 compared to US dollars 850.3 million recorded during the same period in 2014.

Workers' Remittances

Workers' remittances increased by 6.3 per cent, year-on-year, to US dollars 644.3 million in March 2015 from US dollars 605.9 million recorded in March 2014. The cumulative inflow from workers' remittances increased marginally by 1.0 per cent to US dollars 1,679.4 million during the first quarter of 2015 in comparison to the corresponding period of 2014.

Financial Flows

Foreign investments in the government securities market, which recorded a net outflow of US dollars 15.4 million during the first quarter of 2015, recorded a net outflow of US dollars 41.6 million by 28 May 2015. Meanwhile, foreign investments in the Colombo Stock Exchange (CSE) up to the end March 2015 recorded a net inflow of US dollars 38.6 million, including net inflows to the secondary market amounting to US dollars 21.9 million and inflows to the primary market amounting to US dollars 16.7 million. Net inflows to the CSE by 28 May 2015 amounted to US dollars 51.6 million including primary market inflows up to end April 2015. During the first quarter of 2015, long term loans obtained by the Government amounted to US dollars 222.6 million.

Meanwhile, Sri Lanka successfully issued the eighth international sovereign bond of US dollars 650 million on 28 May 2015. The bond which was issued with a comparatively low yield of 6.125 per cent per annum and a maturity of 10 years attracted an order book of over three times. Further, Sri Lanka Development Bonds (SLDBs) of US dollars 100 million were offered on 28 May 2015 which attracted an order book of nearly four times of which US dollars 338 million was accepted. These oversubscriptions reflect the continued investor confidence in the Sri Lanka's economy.

Overall BOP Position

During the first quarter of 2015, the overall BOP is estimated to have recorded a deficit of US dollars 1,016.8 million, compared to a surplus of US dollars 828.3 million recorded during the corresponding period of 2014.

International Reserves

Sri Lanka's gross official reserves as at end March 2015 are estimated to be US dollars 6.8 billion, equivalent to 4.2 months of imports while total foreign assets amounted to US dollars 8.6 billion, equivalent to 5.3 months of imports. The gross official reserves increased to US dollars 7.5 billion by end April 2015, which included proceeds of US dollars 400 million from the currency swap arrangement between Central Bank of Sri Lanka and Reserve Bank of India. With the proceeds of the international sovereign bond, SLDBs and 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, gross official reserves are expected to increase further during the next few months.

Exchange Rate Movement

The rupee recorded a modest depreciation of 2.1 per cent against the US dollar during the period from end 2014 through 28 May 2015. Reflecting the cross currency movements, the rupee also depreciated against the pound sterling by 0.8 per cent and the Indian rupee by 1.3 per cent during this period while appreciating against the euro by 9.1 per cent, the Japanese Yen by 1.5 per cent, Canadian dollar by 5.2 per cent and the Australian dollar by 4.6 per cent.

Table 3: Summary of External Sector Performance (a)

Category	March 2014 US\$ mn	March 2015 US\$ mn	Change (%)	Jan-Mar 2014 US\$ mn	Jan-Mar 2015 US\$ mn	Change (%)
Exports	1,070.1	1,060.4	-0.9	2,816.4	2,861.5	1.6
Imports	1,672.1	1,580.9	-5.5	4,748.0	4,792.1	0.9
Trade Balance (surplus+)/deficit(-)	-602.0	-520.5	-13.5	-1,931.6	1,930.6	-0.1
Earnings from Tourism	211.8(b)	250.0	18.0	671.0(b)	762.3	13.6
Workers' Remittances	605.9	644.3(b)	6.3	1,663.4	1,679.4(b)	1.0
Inflows to the CSE (Net) (c)	-21.5	10.5	149.1	-48.0	38.6	180.3
Inflows to the Government (d)	664.8	230.8	-63.5	2,253.7	583.9	-74.1
of which,						
Treasury Bills and Bonds	188.8	158.3	-9.4	569.9	348.7	-38.8
International Sovereign Bonds	-	-	-	1,000.0	-	-
Long term Loans	473.6	68.8	-85.5	678.5	222.6	-67.2

Sources: Sri Lanka Customs
Central Bank of Sri Lanka
Sri Lanka Tourism Development Authority
Colombo Stock Exchange

(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 investments in Treasury bills and Treasury bonds by foreign investors, International Sovereign Bonds and long-term loans of the government.