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CENTRAL BANK OF SRI LANKA

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# Press Release

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## External Sector Performance – May 2015

### Overview

Sri Lanka's external sector remained stable in May 2015. The deficit in the trade account in May 2015 narrowed compared to the previous month due to the month-on-month increase in exports. However, on year-on-year basis, trade deficit during the month widened as expenditure on imports increased while earnings from exports recorded a marginal decline. Meanwhile, continued other foreign exchange inflows in the form of earnings from tourism, workers' remittances as well as inflows to the financial account supported the external sector during the first five months of the year. As at end May 2015, gross official reserves stood at US dollars 6.8 billion. Gross official reserves strengthened further in June 2015 with the proceeds of the latest international sovereign bond, Sri Lanka Development Bond issuance, and other currency inflows.

### Export Performance

Earnings from exports further moderated in May 2015 to US dollars 883 million, recording a marginal decline of 0.1 per cent, year-on-year. Despite the significant improvement recorded in exports of textile and garments, lower performance in tea,

sea food and gem, diamond and jewellery exports contributed to this decline. Tea exports, which were severely affected by the lower demand from Russia and the Middle East, declined for the eight consecutive month in May 2015, recording a drop of 12.1 per cent compared to the corresponding month of 2014. Tea exports to Russia and the Middle East declined by 19.2 per cent and 9.7 per cent, respectively, during May 2015 compared to the corresponding month of 2014. Sea Food exports which dropped continuously from October 2014, recorded a further decline of 39.3 per cent in May 2015, compared to the corresponding month in 2014. This reduction was mainly due to the significant decline of 74.8 per cent in sea food exports to the EU market, the main sea food market of Sri Lanka as a result of the ban on sea food imports from Sri Lanka to the EU market with effect from 13 January 2015. Export earnings from gems, diamonds and jewellery, declined by 29.8 per cent year-on-year to US dollars 25 million. Petroleum products and, machinery and mechanical appliances also contributed for the drop in exports during the month. Export earnings from textiles and garments, which account for about 45 per cent of total exports and declined in March and April 2015, increased by 7.6 per cent during May 2015, reflecting an increase in exports to the USA and non-traditional markets such as Canada, China, UAE and Australia. However, textiles and garments exports to the EU market declined by 11.8 per cent in May 2015, continuing the declining trend observed from March 2015. On a cumulative basis, export earnings during the first five months of 2015 increased marginally by 0.2 per cent, year-on-year, to US dollars 4,471 million. The leading markets for merchandise exports of Sri Lanka during the first five months of 2015 were the USA, UK, India, Germany and China accounting for about 51 per cent of the total exports.

**Table 1: Earnings from Exports**

Category	May 2014 (USD mn)	May 2015 (USD mn)	Growth (%)	Jan-May 2014 (USD mn)	Jan-May 2015 (USD mn)	Growth (%)
<b>1. Industrial exports</b>	<b>640.0</b>	<b>661.3</b>	<b>3.3</b>	<b>3,315.7</b>	<b>3,431.6</b>	<b>3.5</b>
Textiles and garments	365.1	392.9	7.6	1,966.7	1,981.0	0.7
Rubber products	78.0	76.2	(2.3)	360.3	332.5	(7.7)
Gems, diamonds and jewellery	35.0	24.6	(29.8)	163.6	147.5	(9.8)
Transport equipment	6.8	6.4	(5.8)	56.2	178.0	216.9
Machinery and mechanical appliances	29.7	26.5	(10.7)	129.3	127.5	(1.4)
Petroleum products	29.5	25.2	(14.6)	157.8	175.8	11.4
Food beverages & tobacco	22.6	26.5	17.0	121.4	110.5	(9.0)
Other	73.2	83.0	13.3	360.3	378.9	5.2
<b>2. Agricultural exports</b>	<b>239.9</b>	<b>217.0</b>	<b>(9.5)</b>	<b>1,100.6</b>	<b>1,018.0</b>	<b>(7.5)</b>
Tea	140.6	123.6	(12.1)	644.4	561.0	(13.0)
Coconut	30.1	32.9	9.0	132.0	142.3	7.8
Sea Food	24.5	14.9	(39.3)	115.8	72.3	(37.5)
Spices	19.0	21.4	12.7	82.1	130.8	59.3
Other	25.6	24.3	(5.4)	126.2	111.6	(11.6)
<b>3. Mineral and other</b>	<b>3.7</b>	<b>4.3</b>	<b>17.6</b>	<b>47.9</b>	<b>21.8</b>	<b>(54.5)</b>
<b>Total exports</b>	<b>883.5</b>	<b>882.5</b>	<b>(0.1)</b>	<b>4,464.2</b>	<b>4,471.4</b>	<b>0.2</b>

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

## Import Performance

Total import expenditure in May 2015 increased for the second consecutive month recording a significant increase of 17.2 per cent, year-on-year, to US dollars 1,585 million led by vehicle imports, which include personal motor vehicles categorised under consumer goods and commercial vehicles categorised under investment goods. Imports of motor vehicles for personal use, increased by 87.1 per cent, year-on-year, to US dollars 93 million, while transport equipment increased by 117.2 per cent, year-on-year, to US dollars 72 million mainly due to the increase in importation of auto trishaws. In addition, import of machinery and equipment, and textiles and textile articles also contributed significantly to the growth in imports. Import expenditure on machinery and equipment increased by 21.8 per cent during the month, mainly due to higher imports of machinery and equipment parts, printing machinery and medical and laboratory equipment. Import expenditure on textiles and textile articles increased by 16.3 per cent, year-on-year, mainly due to the

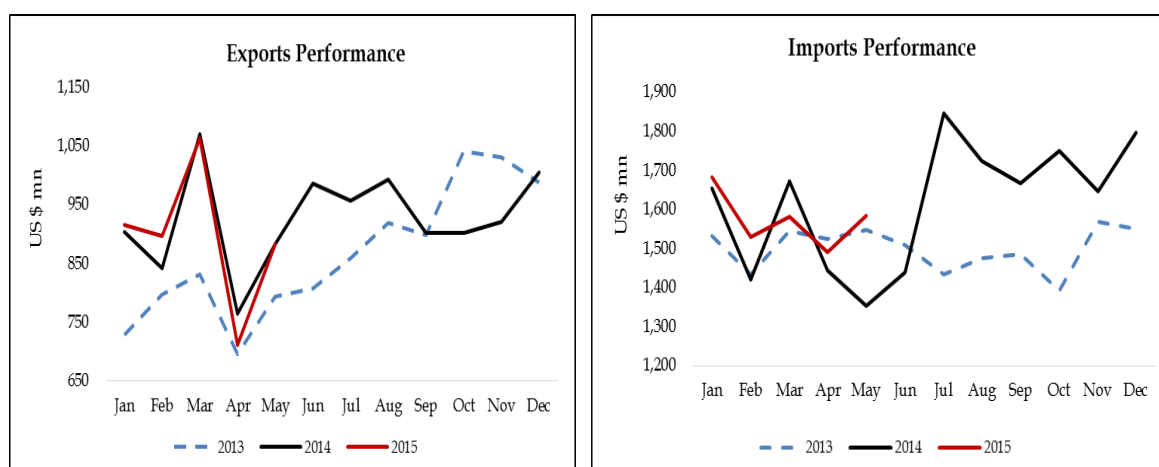
increase in fabrics such as knitted or crocheted fabric, woven fabric of cotton and tyre cord fabric. Meanwhile, import expenditure on fuel declined by 7.8 per cent, year-on-year to US dollars 264 million in May 2015, reflecting 14.1 per cent reduction in refined petroleum bill as a result of a 30.1 per cent decline in import prices. However, expenditure on crude oil imports increased by 11 per cent due to a substantial increase in import volume, despite the decline in the import price. Meanwhile, import expenditure on fertilizer and dairy products declined by 20.9 per cent and 40.7 per cent, respectively, while rice imports which recorded a significant growth since April 2014, also declined by 23.8 per cent in May due to the increase of Special Commodity Levy imposed on rice to Rs. 40 per kg from Rs. 20 per kg with effect from 26.03.2015. On a cumulative basis, expenditure on imports during the first five months of 2015 increased by 4.3 per cent, year-on-year, to US dollars 7,868 million mainly led by consumer goods imports followed by investment goods imports. During the period from January to May 2015, the main import origins were India, China, Japan, UAE and Singapore accounting for about 60 per cent of the total imports.

**Table 2: Expenditure on Imports**

Category	May 2014 (USD mn)	May 2015 (USD mn)	Growth (%)	Jan-May 2014 (USD mn)	Jan-May 2015 (USD mn)	Growth (%)
<b>1. Consumer goods</b>	<b>277.8</b>	<b>348.8</b>	<b>25.6</b>	<b>1,322.1</b>	<b>1,916.1</b>	<b>44.9</b>
Food and Beverages	137.6	131.9	(4.1)	584.3	743.8	27.3
Dairy products	27.0	16.0	(40.7)	153.2	96.6	(36.9)
Other food and beverages	110.6	115.9	4.8	431.1	647.1	50.1
Non-food consumer goods	140.2	216.8	54.7	737.8	1,172.3	58.9
Medical and pharmaceuticals	27.8	39.7	43.0	151.6	188.1	24.1
Vehicles	49.7	93.0	87.1	246.4	477.9	93.9
Other non- food consumables	62.7	84.1	34.1	339.8	506.3	49.0
<b>2. Intermediate goods</b>	<b>794.7</b>	<b>889.2</b>	<b>11.9</b>	<b>4,667.3</b>	<b>4,042.3</b>	<b>(13.4)</b>
Fuel	286.6	264.3	(7.8)	2,048.3	1,186.0	(42.1)
Textiles and textile articles	176.4	205.2	16.3	884.4	974.1	10.1
Chemical products	63.2	67.0	5.9	311.8	354.9	13.8
Mineral Products	12.5	33.8	170.7	103.0	93.4	(9.3)
Base metals	30.2	49.3	63.2	174.0	210.2	20.8
Paper and paperboard articles	39.7	42.8	7.9	176.5	187.0	5.9
Wheat and Maize	27.7	34.6	25.1	181.8	121.4	(33.2)
Fertilizer	31.7	25.1	(20.9)	127.2	111.5	(12.3)
Other	126.7	167.1	31.9	660.3	803.7	21.7
<b>3. Investment goods</b>	<b>279.7</b>	<b>345.8</b>	<b>23.6</b>	<b>1,550.8</b>	<b>1,900.7</b>	<b>22.6</b>
Machinery and Equipment	142.9	174.1	21.8	843.8	950.1	12.6
Building materials	103.6	100.0	(3.5)	509.3	509.0	(0.1)
Transport equipment	33.0	71.6	117.2	196.6	439.5	123.6
Other	0.2	0.1	(19.2)	1.2	2.1	77.3
<b>4. Unclassified</b>	<b>1.0</b>	<b>1.6</b>	<b>57.8</b>	<b>5.4</b>	<b>9.0</b>	<b>66.3</b>
<b>Total imports</b>	<b>1,353.2</b>	<b>1,585.5</b>	<b>17.2</b>	<b>7,545.6</b>	<b>7,868.0</b>	<b>4.3</b>

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

**Figure 1: Export and Import Performance**



## **Trade Balance**

The deficit in the trade account in May 2015 widened substantially by 49.7 per cent to US dollars 703 million in comparison to US dollars 470 million in May 2014, the lowest monthly value recorded during the year 2014. On a cumulative basis, trade deficit during the first five months of 2015 increased by 10.2 per cent to US dollars 3,397 million.

## **Earnings from Tourism**

Tourist arrivals increased by 26.1 per cent, year-on-year, to 113,529 in May 2015 from 90,046 in May 2014. Earnings from tourism<sup>1</sup> are estimated to have increased by 26.1 per cent to US dollars 180.7 million in May 2015, compared to US dollars 143.3 million in May 2014. The top five sources of tourist arrivals in May 2015 were India, China, UK, Germany and France accounting for about 49.8 per cent of tourist arrivals during the month.

Tourist arrivals recorded a growth of 11.9 per cent, year-on-year, in June 2015, with 115,467 tourists arriving during the month. Consequently, the cumulative tourist arrivals during the first six months of 2015 increased by 14.1 per cent to 830,051 compared to the corresponding period of 2014. The cumulative earnings from tourism increased to US dollars 1,321.4 million during the first six months of 2015 compared to US dollars 1,157.9 million recorded during the same period in 2014.

## **Workers' Remittances**

In May 2015, workers' remittances declined marginally by 3.5 per cent, year-on-year, to US dollars 537.7 million from US dollars 557.5 million in May 2014. Meanwhile, on a cumulative basis, inflows from workers' remittances increased marginally by 1.0 per cent to US dollars 2,803.1 million during the first five months of 2015 in comparison to the corresponding period of 2014. However, workers' remittances are expected to gather momentum during the second half of the year.

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<sup>1</sup> 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**

Foreign investments in the government securities market recorded a net outflow of US dollars 237.3 million during the first six months of 2015 compared to a net inflow of US dollars 196.5 million during the corresponding period of 2014. During the first five months of the year, foreign investments in the Colombo Stock Exchange (CSE) recorded a net inflow of US dollars 58.2 million, including net inflows to the secondary market amounting to US dollars 33.5 million and inflows to the primary market amounting to US dollars 24.7 million. Meanwhile, net cumulative inflows to the CSE by 21 July 2015 amounted to US dollars 33.1 million. During the first five months of 2015, long term loans obtained by the Government amounted to US dollars 372.0 million compared to US dollars 848.1 million received in the corresponding period of 2014.

## **Overall BOP Position**

The overall BOP is estimated to have recorded a deficit of US dollars 1,307.8 million during the first five months of 2015, compared to a surplus of US dollars 1,665.1 million recorded during the corresponding period of 2014.

## **International Reserves**

Sri Lanka's gross official reserves as at end May 2015 stood at US dollars 6.8 billion, equivalent to 4.2 months of imports, while total foreign assets amounted to US dollars 8.7 billion, equivalent to 5.3 months of imports. However, the gross official reserves are estimated to have increased to US dollars 7.5 billion as at end June 2015, with the receipt of the proceeds from the latest international sovereign bond and Sri Lanka Development Bond issuances and other currency inflows.

## **Exchange Rate Movement**

During the year, up to 21 July 2015, the rupee has depreciated by 2.1 per cent against the US dollar. However, based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 10.0 per cent, the Australian dollar by 9.2 per cent and the Japanese yen by 2.0 per cent, while depreciating against the pound sterling by 2.0 per cent and the Indian rupee by 1.6 per cent during this period.

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

Category	May 2014 US\$ mn	May 2015 US\$ mn	Change (%)	Jan-May 2014 US\$ mn	Jan-May 2015 US\$ mn	Change (%)
Exports	883.5	882.5	-0.1	4,464.2	4,471.4	0.2
Imports	1,353.2	1,585.5	17.2	7,545.6	7,868.0	4.3
Trade Balance (surplus+)/deficit(-)	-469.7	-702.9	49.7	-3,081.5	-3,396.6	10.2
Earnings from Tourism	143.3(b)	180.7	26.1	993.6(b)	1,137.6	14.5
Workers' Remittances	557.5	537.7	-3.5	2,774.8	2,803.1	1.0
Inflows to the CSE (Net) (c)	69.9	13.3	-81.0	19.2	58.2	203.1
Inflows to the Government (d)	186.5	88.8	-52.4	3,239.2	918.3	-71.7
of which,						
Treasury Bills and Bonds	92.8	10.1	-89.1	874.9	526.1	-39.9
International Sovereign Bonds	-	-		1,500.0	-	
Long term Loans	85.0	77.2	-9.2	848.1	372.0	-56.1

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.