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Press Release

Issued By Economic Research Department

Date 21.08.2015

External Sector Performance–June 2015

Overview

The external sector showed a mixed performance with a widened trade deficit and continued inflows in the form of services and workers' remittances in June 2015. The wider trade deficit on a cumulative basis as at end June 2015 was offset to a greater extent by continued healthy inflows of workers' remittances and earnings from tourism. Meanwhile, cumulative inflows to the financial account continued to moderate although inflows in June witnessed some improvement. Gross official reserves strengthened to US dollars 7.5 billion as at end June 2015 with the receipt of proceeds from the issuance of International Sovereign Bond and Sri Lanka Development Bonds.

Export Performance

Earnings from exports in June 2015 amounted to US dollars 944 million, recording a decline of 4.2 per cent, year-on-year. Despite the significant improvement in earnings from exports of transport equipment, petroleum products and spices, lower earnings from tea, textiles and garments, rubber products and seafood exports contributed to this decline. Export of transport equipment increased significantly due to the export of a cruise ship to India. Export of petroleum products increased

owing to a more than two fold growth in bunker fuel volume despite the decline in bunker fuel price by over 50 per cent. Earnings from spice exports increased more than 40 per cent as exports of all categories of spices performed well during the month. However, this positive expansion in exports was outweighed by the subdued performance of other main export categories. Tea exports continued to decline in June 2015 for the eleventh consecutive month, due to lower demand from main tea buyers such as Russia (a drop of 29 per cent) and the Middle East (a drop of 24 per cent). Weaker demand for tea in main markets resulted in a decline in export volumes as well as the unit price with the lowest export price of US dollars 4.39 per kg of tea being recorded since September 2012. Earnings from exports of textiles and garments declined reflecting lower exports to EU countries despite the growth in exports to both the USA and non-traditional markets. Export earnings from rubber products declined during the month due to lower performance of the export of rubber tyres, surgical gloves and other rubber products. Seafood exports continued to decline in June 2015 consequent to the ban on exports of fisheries products to the EU from Sri Lanka. Accordingly, in June 2015, seafood exports to EU declined by 72 per cent, year-on-year, while such exports to other markets increased by 18 per cent, year-on-year.

On a cumulative basis, earnings from exports declined marginally by 0.6 per cent during the first six months of the year mainly due to a lower performance of agricultural exports despite the growth in industrial exports. The leading markets for merchandise exports of Sri Lanka during the first six months of 2015 were the USA, the UK, India, Germany, Italy and China which accounted for about 55 per cent of total exports.

Table 1: Earnings from Exports

Category	June 2014 (US\$ mn)	June 2015 (US\$ mn)	Change (%)	Jan-June 2014 (US\$ mn)	Jan-June 2015 (US\$ mn)	Change (%)
1. Industrial Exports	725.4	713.8	(1.6)	4,041.0	4,145.4	2.6
Textiles and garments	446.2	424.3	(4.9)	2,412.9	2,405.4	(0.3)
Rubber products	76.6	65.5	(14.5)	436.9	398.0	(8.9)
Gems, diamonds and jewellery	36.3	25.3	(30.4)	199.9	172.8	(13.6)
Machinery and mechanical appliances	30.5	23.3	(23.6)	159.9	150.8	(5.7)
Transport equipment	5.9	30.0	411.1	62.0	208.0	235.3
Petroleum products	26.4	48.3	82.6	184.3	224.1	21.6
Food, beverages & tobacco	22.5	22.8	1.1	144.0	133.3	(7.4)
Other	80.9	74.2	(8.3)	441.2	453.1	2.7
2. Agricultural Exports	256.1	226.7	(11.5)	1,356.7	1,244.7	(8.3)
Tea	152.6	121.9	(20.1)	797.0	682.9	(14.3)
Coconut	32.2	31.9	(0.8)	164.2	174.2	6.1
Sea Food	18.4	13.5	(26.7)	134.2	85.8	(36.1)
Spices	27.9	39.9	43.4	110.0	170.8	55.2
Other	25.1	19.4	(22.4)	151.3	131.0	(13.4)
3. Mineral and Other	4.2	3.6	(15.6)	52.1	25.3	(51.4)
Total Exports	985.7	944.1	(4.2)	5,449.9	5,415.5	(0.6)

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

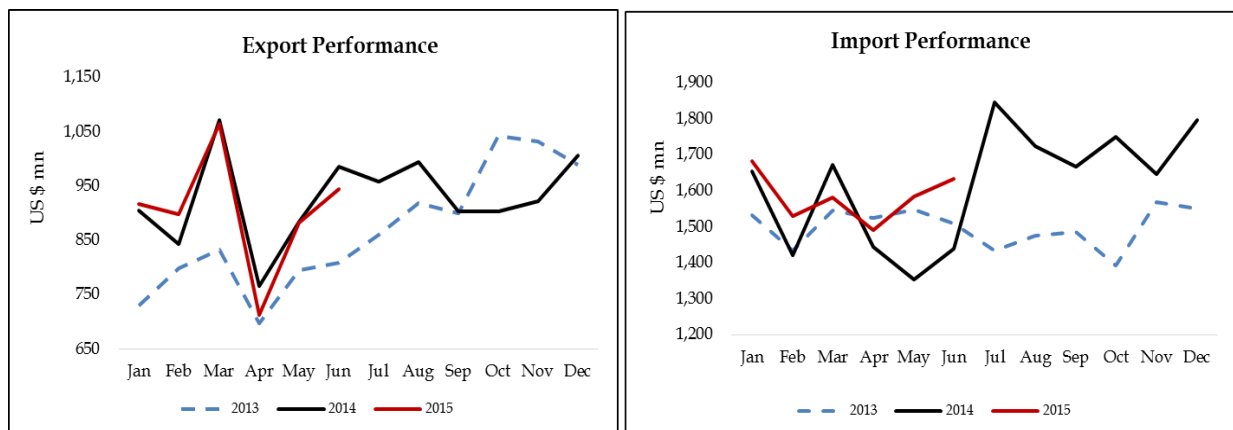
Import Performance

Expenditure on imports in June 2015 increased by 13.5 per cent, year-on-year, to US dollars 1,633 million. This growth was led by vehicle imports for personal usage categorised under consumer goods, which increased by 110.1 per cent due to higher importation of motor cars and motor cycles, and vehicle imports for business purposes categorised under investment goods, which increased by 238.6 per cent due to higher importation of auto trishaws and other motor vehicles. Import expenditure on textiles and textile articles increased reflecting potential higher export demand in coming months and increased local demand for garments. Meanwhile, import expenditure on fuel declined by 41.3 per cent, year-on-year, to US dollars 242 million in June 2015, reflecting a 70.3 per cent decline in expenditure on crude oil and a 23.6 per cent drop in expenditure on refined petroleum products. Lower expenditure on fuel imports was mainly due to the significant decline in oil prices in international markets. Meanwhile, import expenditure on sugar declined by 54.7 per cent mainly due to the decrease in the import price of sugar coupled with

a lower import volume. Mineral product imports and rice imports also declined during the month. Rice imports, which recorded a significant growth since April 2014, contracted by 75.8 per cent in June after the introduction of import duty and other taxes in place of the Special Commodity Levy (SCL) with effect from 6 May 2015 and the increase in domestic rice production.

On a cumulative basis, expenditure on imports during the first six months of 2015 increased by 5.7 per cent, year-on-year, to US dollars 9,501 million mainly led by the import of consumer goods followed by the import of investment goods. During the first six months of 2015, the main import origination countries were India, China, Japan, UAE and Singapore, which accounted for about 60 per cent of total imports.

Figure 1: Export and Import Performance



Source: Central Bank of Sri Lanka
Sri Lanka Customs

Table 2: Expenditure on Imports

Category	June	June	Change	Jan-June	Jan-June	Change
	2014	2015		2014	2015	
	(US\$ mn)	(US\$ mn)	(%)	(US\$ mn)	(US\$ mn)	(%)
1. Consumer Goods	277.3	391.3	41.1	1,599.4	2,307.4	44.3
Food and beverages	135.6	126.8	(6.5)	719.9	870.6	20.9
Sugar and confectionery	39.4	17.9	(54.5)	143.5	141.1	(1.7)
Cereals and milling industry products	14.6	4.7	(67.8)	62.2	133.4	114.3
Dairy products	21.9	25.7	17.5	175.1	122.4	(30.1)
Other food and beverages	59.7	78.5	31.5	339.1	473.8	39.7
Non-food consumer goods	141.7	264.5	86.7	879.5	1,436.8	63.4
Medical and pharmaceuticals	27.8	40.4	45.2	179.4	228.5	27.4
Vehicles	56.4	118.5	110.1	302.9	596.5	97.0
Other non- food consumables	57.4	105.6	83.8	397.2	611.8	54.0
2. Intermediate Goods	891.5	864.2	(3.1)	5,558.8	4,906.5	(11.7)
Fuel	412.4	241.9	(41.3)	2,460.7	1,427.9	(42.0)
Textiles and textile articles	164.4	218.0	32.6	1,048.8	1,192.1	13.7
Chemical products	55.7	67.9	22.0	367.5	422.9	15.1
Plastic and articles thereof	43.2	57.7	33.6	276.0	297.8	7.9
Mineral products	26.0	12.2	(52.8)	129.0	105.7	(18.1)
Paper and paperboard articles	34.1	42.5	24.8	210.6	229.5	9.0
Wheat and maize	17.6	53.5	204.8	199.4	174.9	(12.3)
Fertiliser	13.8	28.2	105.1	140.9	139.8	(0.8)
Other	124.5	142.3	14.3	725.9	916.1	26.2
3. Investment Goods	269.8	377.1	39.8	1,820.7	2,277.8	25.1
Machinery and equipment	145.6	192.6	32.3	989.4	1,142.7	15.5
Building materials	101.3	108.5	7.1	610.6	617.5	1.1
Transport equipment	22.3	75.6	238.6	218.9	515.1	135.3
Other	0.6	0.3	(40.3)	1.8	2.5	39.9
4. Unclassified	0.8	0.6	(23.1)	6.2	9.6	54.6
Total Imports	1,439.4	1,633.3	13.5	8,985.0	9,501.3	5.7

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

Trade Balance

On a cumulative basis, the trade deficit during the first six months of 2015 increased by 15.6 per cent to US dollars 4,086 million. However, the deficit in the trade account in June 2015 widened substantially by 51.9 per cent to US dollars 689 million, year-

on-year, while remittance inflows and earnings from tourism were more than sufficient to finance the deficit.

Earnings from Tourism

In July 2015 tourist arrivals recorded impressive growth of 31.2 per cent, year-on-year, with 175,804 tourists arriving during the month. In the first seven months of the year, tourist arrivals surpassed the one million benchmark reaching a total of 1,005,855, translating into 16.8 per cent growth over the corresponding period of 2014. The top five sources of tourist arrivals up to July 2015 were India, China, UK, Germany and France. The number of Chinese and Indian tourist arrivals increased significantly during the first seven months of the year. However, a notable decline was observed in tourist arrivals from Russia during this period. Earnings from tourism¹ are estimated to have increased by 31.2 per cent to US dollars 279.9 million in July 2015 compared to US dollars 213.3 million recorded in July 2014. Consequently, the cumulative earnings from tourism increased by 16.8 per cent to US dollars 1,601.2 million during the first seven months of 2015 in comparison to US dollars 1,371.2 million recorded during the same period in 2014.

Workers' Remittances

Workers' remittances grew by 7.6 per cent to US dollars 629.6 million during June 2015, in comparison to US dollars 585.1 million in June 2014, recording the highest monthly inflow in 2015 year to date. On a cumulative basis, workers' remittances during the first six months of the year grew by 2.2 per cent to US dollars 3,432.7 million from US dollars 3,360.0 million in the corresponding period of 2014.

Financial Flows

Foreign investments in the government securities market recorded a net outflow of US dollars 424.7 million during the first seven months of 2015 compared to a net inflow of US dollars 231.8 million during the corresponding period of 2014. During

¹ This provisional estimate may be revised once the Sri Lanka Tourism Development Authority releases its survey results on average stay period and average spending per day estimates for 2015.

the first six months of the year, foreign investments in the Colombo Stock Exchange (CSE) recorded a net inflow of US dollars 44.8 million, including net inflows to the secondary market amounting to US dollars 13.6 million and inflows to the primary market amounting to US dollars 31.2 million. However, there was a net cumulative outflow of US dollars 9.0 million from the secondary market of the CSE by 18 August 2015. During the first six months of 2015, long term loans obtained by the government amounted to US dollars 490.8 million compared to US dollars 1,002.2 million received in the corresponding period of 2014.

Overall BOP Position

The overall BOP is estimated to have recorded a deficit of US dollars 791.7 million during the first six months of 2015 in comparison to a surplus of US dollars 1,954 million recorded during the corresponding period of 2014.

International Reserves

Sri Lanka's gross official reserves stood at US dollars 7.5 billion as at end June 2015, equivalent to 4.5 months of imports, which included proceeds from the latest International Sovereign Bond and Sri Lanka Development Bond issuances. Meanwhile, total foreign assets amounted to US dollars 9.2 billion, equivalent to 5.6 months of imports. However, gross official reserves are estimated at US dollars 6.9 billion as at end July 2015.

Exchange Rate Movement

During the year up to 18 August 2015, the rupee depreciated by 2.2 per cent against the US dollar. However, based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 7.4 per cent, the Australian dollar by 8.9 per cent, the Japanese yen by 2.0 per cent and the Indian rupee by 0.8 per cent, while depreciating against the pound sterling by 2.3 per cent during this period.

Table 3: Summary of External Sector Performance (a)

Category	June 2014 US\$ mn	June 2015 US\$ mn	Change (%)	Jan- June 2014 US\$ mn	Jan-June 2015 US\$ mn	Change (%)
Exports	985.7	944.1	-4.2	5,449.9	5,415.5	-0.6
Imports	1,439.4	1,633.3	13.5	8,985.0	9,501.3	5.7
Trade balance (surplus+)/deficit(-)	-453.7	-689.2	51.9	-3,535.2	-4,085.8	15.6
Earnings from tourism	164.2(b)	183.8	11.9	1,157.9(b)	1,321.4	14.1
Workers' remittances	585.1	629.6	7.6	3,360.0	3,432.7	2.2
Inflows to the CSE (Net) (c)	28.8	-13.3	-146.3	48.0	44.8	-6.7
Inflows to the government (d)	267.1	771.0	188.7	3,506.3	1,708.6	-51.3
of which,						
Treasury bills and bonds	67.0	21.3	-68.2	941.9	547.4	-41.9
International Sovereign Bonds	-	650.0		1,500.0	650.0	-56.7
Long term loans	154.1	99.6	-35.3	1,002.2	490.8	-51.0

Sources: Sri Lanka Customs
Sri Lanka Tourism Development Authority
Colombo Stock Exchange
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 investments in Treasury bills and Treasury bonds by foreign investors, International Sovereign Bonds and long term loans of the government.