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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel : 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

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External Sector Performance–July 2015

Overview

The external sector performance improved in July 2015, year-on-year, with a lower trade deficit and strong tourist earnings. The increase in the cumulative trade deficit in July was 6 per cent, down from 15.6 per cent recorded in June this year, due to a sharp deceleration in imports during July 2015. Net inflows to the financial account remained moderate. The decision of the Central Bank to allow greater flexibility in the determination of the exchange rate from 04 September, 2015 is expected to help reduce the trade deficit further while improving the country's gross official reserves, thereby leading to greater external sector stability.

Export Performance

Export earnings dropped by 2.6 per cent to US dollars 932 million in July 2015, reflecting a year-on-year decline in both industrial and agricultural exports. Exports of all sub categories of industrial sector, except transport equipment, petroleum products and animal fodder, declined in July 2015, owing to the weak global demand and reduction in export prices. Among the industrial exports, the earnings from the textiles and garments, which account for more than 44 per cent of the total

exports earnings, declined marginally by 0.3 per cent, year-on-year, in July 2015. This was mainly due to the decline in garments exports despite the growth of 34.0 per cent recorded in textiles exports over July 2014. However, garments exports declined by 1.3 per cent, reflecting a substantial reduction in garments exports to the EU market. Meanwhile, decreases in earnings from export of rubber products, gems, diamonds and jewellery, machinery and equipment mainly contributed for the overall decline in industrial exports. Export earnings from transport equipment, petroleum products and animal fodder increased by 91.3 per cent, 42.2 per cent and 13.0 per cent, respectively, in July 2015.

Earnings from agricultural exports in July 2015 declined by 2.7 per cent, year-on-year, to US dollars 245 million, led by significant declines recorded in tea and sea food exports. Tea exports, which were severely affected by the lower demand from Russia and Middle East, declined in July 2015 for the 12th consecutive month, recording a drop of 14.0 per cent, year-on-year, reflecting declines in both export volume and export prices. Export earnings from seafoods continued to decline owing to the restrictions on market access to the EU market. Accordingly, seafood exports to EU area dropped by 71.0 per cent recording an overall decline of 32.5 per cent in the seafood category, year-on-year, in July 2015. However, earnings from exports of spices, minor agricultural products and coconut kernel products recorded a positive growth partly offsetting the overall decline in agricultural exports.

On a cumulative basis, earnings from exports declined marginally by 0.9 per cent during the first seven months of the year mainly due to the lower performance of agricultural exports despite the positive growth in industrial exports. The leading markets for merchandise exports of Sri Lanka during this period 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 | July 2014 (US\$ mn) | July 2015 (US\$ mn) | Change (%) | Jan-July 2014 (US\$ mn) | Jan-July 2015 (US\$ mn) | Change (%) |
|-------------------------------------|------------------------|------------------------|--------------|----------------------------|----------------------------|---------------|
| 1. Industrial exports | 700.9 | 682.4 | (2.6) | 4,742.0 | 4,827.8 | 1.8 |
| Textiles and garments | 414.5 | 413.1 | (0.3) | 2,827.4 | 2,818.5 | (0.3) |
| Rubber products | 79.7 | 71.8 | (9.9) | 516.6 | 469.8 | (9.1) |
| Gems, diamonds and jewellery | 31.4 | 23.7 | (24.5) | 231.3 | 196.5 | (15.1) |
| Machinery and mechanical appliances | 32.6 | 27.1 | (16.8) | 192.4 | 177.9 | (7.5) |
| Transport equipment | 3.7 | 7.1 | 91.3 | 65.7 | 215.1 | 227.2 |
| Petroleum products | 28.2 | 40.1 | 42.2 | 212.5 | 264.1 | 24.3 |
| Food beverages & tobacco | 22.6 | 22.5 | (0.2) | 166.5 | 155.8 | (6.4) |
| Other | 88.3 | 76.9 | (12.9) | 529.5 | 530.0 | 0.1 |
| 2. Agricultural exports | 252.2 | 245.3 | (2.7) | 1,608.9 | 1,490.1 | (7.4) |
| Tea | 147.2 | 126.5 | (14.0) | 944.2 | 809.4 | (14.3) |
| Coconut | 34.6 | 34.3 | (0.8) | 198.8 | 208.5 | 4.9 |
| Seafood | 22.4 | 15.1 | (32.5) | 156.6 | 100.9 | (35.5) |
| Spices | 26.9 | 48.5 | 80.0 | 136.9 | 219.2 | 60.1 |
| Other | 21.1 | 20.9 | (1.0) | 172.4 | 151.9 | (11.9) |
| 3. Mineral and other | 3.5 | 4.4 | 25.1 | 55.6 | 29.7 | (46.6) |
| Total exports | 956.6 | 932.1 | (2.6) | 6,406.5 | 6,347.6 | (0.9) |

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

Import Performance

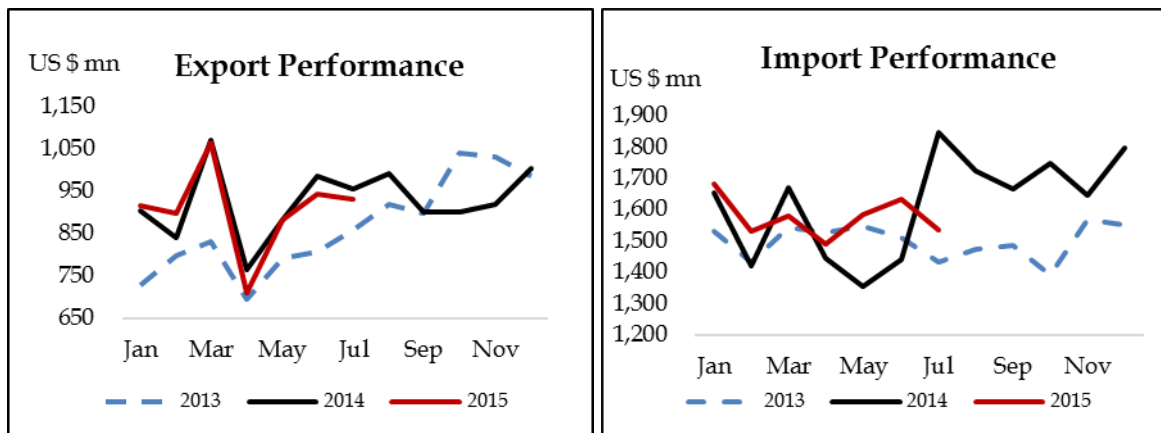
Expenditure on imports decreased by 16.9 per cent, year-on-year, to US dollars 1,534 million in July 2015 mainly due to the base effect as July 2014 recorded the highest monthly import value after November 2012. In addition, reduction in fuel imports bill also contributed for the overall decline in import expenditure. Import expenditure on fuel imports declined by 66.1 per cent, on a year-on-year basis, during the month. The average crude oil import price, which was US dollars 110.3 per barrel in July 2014 had nearly halved to US dollars 60.5 per barrel in July 2015. As a result, expenditure on intermediate goods imports declined by 32.8 per cent, year-on-year, to US dollars 752 million in July 2015. Import expenditure on base metals, fertilisers and textile and textile articles also dropped during the month.

However, higher imports of personal motor cars in both value and volume terms, and import of vehicles, such as lorries and tractors, contributed mainly for the

increase in consumer goods and investment goods, respectively. As a result, expenditure on consumer goods imports increased by 14.8 per cent to US dollars 415 million while expenditure on investment goods imports increased marginally to US dollars 366 million. However, import expenditure on consumer goods, such as dairy products, clothing and accessories, sugar and confectionery and machinery and equipment, declined significantly in July 2015.

On a cumulative basis, expenditure on imports during the first seven months of 2015 increased by 1.9 per cent, year-on-year, to US dollars 11,035 million mainly led by the imports of consumer goods followed by the imports of investment goods despite the significant drop in expenditure on intermediate goods imports. During the first seven months of 2015, the main import originating countries were India, China, Japan, UAE and Singapore, which accounted for about 60 per cent of the total imports.

Figure 1: Export and Import Performance



Source: Central Bank of Sri Lanka
Sri Lanka Customs

Table 2: Expenditure on Imports

| Category | July 2014 (US\$ mn) | July 2015 (US\$ mn) | Change (%) | Jan-July 2014 (US\$ mn) | Jan-July 2015 (US\$ mn) | Change (%) |
|---------------------------------------|---------------------------|---------------------------|---------------|-------------------------------|-------------------------------|---------------|
| 1. Consumer goods | 361.1 | 414.7 | 14.8 | 1,960.5 | 2,722.1 | 38.8 |
| Food and beverages | 154.0 | 132.7 | (13.8) | 873.8 | 1,003.3 | 14.8 |
| Sugar and confectionery | 33.7 | 23.8 | (29.3) | 177.2 | 164.9 | (6.9) |
| Cereals and milling industry products | 11.5 | 3.5 | (69.6) | 73.7 | 136.8 | 85.7 |
| Dairy products | 39.0 | 23.4 | (40.0) | 214.1 | 145.8 | (31.9) |
| Other food and beverages | 69.8 | 82.0 | 17.5 | 408.9 | 555.8 | 35.9 |
| Non-food consumer goods | 207.2 | 282.0 | 36.1 | 1,086.7 | 1,718.8 | 58.2 |
| Medical and pharmaceuticals | 37.2 | 39.3 | 5.7 | 216.6 | 267.9 | 23.7 |
| Vehicles | 71.4 | 147.9 | 107.1 | 374.2 | 744.4 | 98.9 |
| Other non- food consumables | 98.6 | 94.8 | (3.9) | 495.8 | 706.6 | 42.5 |
| 2. Intermediate goods | 1,118.7 | 752.0 | (32.8) | 6,677.5 | 5,658.5 | (15.3) |
| Fuel | 515.8 | 174.8 | (66.1) | 2,976.5 | 1,602.7 | (46.2) |
| Textiles and textile articles | 206.6 | 201.0 | (2.7) | 1,255.4 | 1,393.2 | 11.0 |
| Chemical products | 75.6 | 79.0 | 4.5 | 443.1 | 501.8 | 13.3 |
| Plastic and articles thereof | 57.1 | 55.3 | (3.2) | 333.1 | 353.1 | 6.0 |
| Mineral products | 11.6 | 20.4 | 76.3 | 140.6 | 126.0 | (10.3) |
| Base metals | 55.7 | 33.3 | (40.1) | 268.1 | 277.9 | 3.6 |
| Food preparations | 22.1 | 16.2 | (26.5) | 145.2 | 145.0 | (0.1) |
| Fertilizer | 12.0 | 6.5 | (46.0) | 152.9 | 146.2 | (4.4) |
| Other | 162.3 | 165.4 | 1.9 | 962.6 | 1,112.5 | 15.6 |
| 3. Investment goods | 364.3 | 365.8 | 0.4 | 2,185.0 | 2,643.6 | 21.0 |
| Machinery and equipment | 209.2 | 179.1 | (14.4) | 1,198.6 | 1,321.8 | 10.3 |
| Building materials | 104.4 | 105.7 | 1.2 | 715.1 | 723.2 | 1.1 |
| Transport equipment | 50.5 | 80.8 | 60.0 | 269.4 | 595.8 | 121.2 |
| Other | 0.2 | 0.2 | 30.8 | 1.9 | 2.7 | 39.1 |
| 4. Unclassified | 1.2 | 1.4 | 14.4 | 7.4 | 11.0 | 48.0 |
| Total imports | 1,845.3 | 1,533.9 | (16.9) | 10,830.3 | 11,035.2 | 1.9 |

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

Trade Balance

The deficit in the trade account in July 2015 contracted substantially by 32.3 per cent to US dollars 602 million in comparison to US dollars 889 million in July 2014. However, on a cumulative basis, trade deficit during the first seven months of 2015 increased by 6.0 per cent to US dollars 4,688 million.

Earnings from Tourism

Tourist arrivals continued its growth momentum in August 2015 with 166,610 tourist arrivals, reflecting a growth of 18.7 per cent during the month. Tourist arrivals during the first eight months of the year totalled 1,172,465 showing a growth of 17.1 per cent over the same period of 2014. The top ten source countries of tourist arrivals recorded a positive growth except Russia. The arrival of Chinese and Indian tourists continued to record impressive growth rates with 76.8 per cent and 27.9 per cent increases, respectively, up to August this year. Earnings from tourism are estimated to have increased to US dollars 265.2 million in August 2015, a growth of 18.7 per cent compared to August 2014¹. The cumulative earnings from tourism are estimated to increase by 17.1 per cent to US dollars 1,866.5 million up to August 2015 in comparison to US dollars 1,762.5 million in the comparable period of 2014.

Workers' Remittances

Foreign exchange inflows from workers' remittances at US dollars 599 million in July 2015 recorded a marginal decrease of 1.2 per cent compared to US dollars 607 million in July 2014. On a cumulative basis, workers' remittances up to July 2015 amounted to US dollars 4,032 million registering a growth of 1.6 per cent over the corresponding period in 2014.

Financial Flows

Considerable outflows of foreign investments in government securities were witnessed during August 2015 resulting in a cumulative net outflow of US dollars 633.9 million during the first eight months, compared to a net inflow of US dollars 217.7 million during the corresponding period of 2014. This was primarily due to the expected hike in US interest rates, which has prompted a considerable disinvestment of short term foreign investments from emerging markets in the past few months. This effect was also felt in equity markets with the Colombo Stock Exchange recording only a net inflow of US dollars 6.4 million up to August 2015, which comprised net outflows of US dollars 24.8 million (up to August) of foreign investments from the secondary market and net inflows to the primary market

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.

amounting to US dollars 31.2 million (up to July). Long term loan inflows to the government also remained moderate, with only a net inflow of US dollars 115.3 million received up to July 2015, compared to a net inflow of US dollars 644 million in the comparable period of 2014.

Overall Balance of Payments Position

The overall BOP is estimated to have recorded a deficit of US dollars 1,205 million during the first seven months of 2015 in comparison to a surplus of US dollars 2,016 million recorded during the corresponding period of 2014.

International Reserves and Exchange Rate Movement

Sri Lanka's gross official reserves stood at US dollars 6.8 billion as at end July 2015, equivalent to 4.2 months of imports, with total foreign assets amounting to US dollars 8.4 billion, equivalent to 5.2 months of imports. The Central Bank allowed greater flexibility in the determination of the exchange rate from 4th September 2015. The Sri Lankan rupee depreciated by 4.6 per cent against the US dollar from the date of change in the policy stance up to 29 September 2015. However, the rupee has depreciated by 7.2 per cent during the year up to 29 September 2015. Furthermore, based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the Australian dollar by 9.5 per cent and the euro by 0.3 per cent while depreciating against the Japanese yen by 6.9 per cent, the pound sterling by 4.7 per cent and the Indian rupee by 3.0 per cent during this period.

Table 3: Summary of External Sector Performance (a)

| Category | July 2014 US\$ mn | July 2015 US\$ mn | Change (%) | Jan- July 2014 US\$ mn | Jan-July 2015 US\$ mn | Change (%) |
|-------------------------------------|----------------------|----------------------|------------|---------------------------|--------------------------|------------|
| Exports | 956.6 | 932.1 | -2.6 | 6,406.5 | 6,347.6 | -0.9 |
| Imports | 1,845.3 | 1,533.9 | -16.9 | 10,830.3 | 11,035.2 | 1.9 |
| Trade balance (surplus+)/deficit(-) | -888.7 | -601.8 | -32.3 | -4,423.9 | -4,687.6 | 6.0 |
| Earnings from tourism | 213.3(b) | 279.9 | 31.2 | 1,371.2(b) | 1,601.2 | 16.8 |
| Workers' remittances | 606.7 | 599.3 | -1.2 | 3,966.6 | 4,032.0 | 1.6 |
| Inflows to the CSE (Net) (c) | 36.3 | -4.8 | -113.3 | 84.3 | 40.0 | -52.6 |
| Inflows to the government (d) | 588.7 | 155.6 | -73.6 | 4,095.0 | 1,880.6 | -54.1 |
| of which, | | | | | | |
| Treasury bills and bonds | 467.8 | 83.8 | -83.1 | 1,409.7 | 631.3 | -55.2 |
| International Sovereign Bonds | - | 650.0 | | 1,500.0 | 650.0 | -56.7 |
| Long term loans | 116.7 | 68.3 | -41.5 | 1,118.9 | 575.3 | -48.6 |

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 on account of investments in Treasury bills and Treasury bonds by foreign investors, International Sovereign Bonds and long term loans.