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Press Release

Issued By Economic Research Department

Date 22.10.2015

External Sector Performance- August 2015

Overview

Sri Lanka's external sector reflected a modest performance in August 2015 (year-on-year basis) with a slightly lower trade deficit and robust growth in tourist earnings. Despite the slowdown in imports during the first eight months of 2015, the cumulative trade deficit as at end August 2015 had increased by 5.0 per cent, as a result of mediocre export performance on account of dampened global demand. However, the current account balance was buoyed by the growth in earnings from tourism. As observed across emerging markets, net inflows to the financial account moderated as a result of the unwinding of short term foreign investments, in the wake of a possible increase in interest rates in the U.S. Meanwhile, the decision of the Central Bank to accommodate greater flexibility in the determination of the exchange rate from early September 2015 would help the external sector to gather momentum gradually. This policy change is expected to strengthen the external sector mainly through the improvement in the trade account and financial account leading to the strengthening of the country's gross official reserves position.

Export Performance

The total earnings from exports amounted to US dollars 799 million in August 2015. This reflected a decline of 19.5 per cent, year-on-year, showing decreases in all major export categories. The lower earnings from tea, textiles and garments, transport equipment and rubber products mainly contributed to the overall decline in exports earnings during the month. Earning from tea exports in August 2015 declined by 33.9 per cent to US dollars 92 million due to the combined effect of lower export volumes and prices. Tea export earnings from Russia and the Middle East declined, year-on-year, by 38.6 per cent and 38.3 per cent, respectively, during the month owing to the substantial decline in oil revenue of those countries. Export earnings from textiles and garments, which accounted for half of the exports in the month, declined by 6.6 per cent, reflecting a reduction in exports to the EU market for the sixth consecutive month. Meanwhile, export earnings from transport equipment decreased by 85.9 per cent, year-on-year, mainly due to higher exports in August 2014 largely due to the export of a cruise ship. Earnings from rubber product exports declined during the month due to the drop in the exports of rubber tyres. Exports of seafood declined by 41.7 per cent due to a 88.3 per cent decline in seafood exports to the EU market reflecting the impact of the ban on exports of fisheries products to the EU from Sri Lanka. Export earnings from petroleum products declined marginally by 0.2 per cent in August 2015 compared to the corresponding month of the previous year. Gems, diamonds and jewellery, machinery and mechanical appliances, food beverages and tobacco are the other export categories that largely contributed to the overall decline in export earnings during the month. However, spices and unmanufactured tobacco, categorised under agricultural exports, and printing industry products, categorised under industrial products recorded a growth during the month.

On a cumulative basis, export earnings declined by 3.4 per cent, year-on-year, to US dollars 7,147 million during the first eight months of 2015 largely due to weak global demand. The leading markets for merchandise exports of Sri Lanka during the first eight months of 2015 were the USA, UK, India, Germany and Italy accounting for about 51 per cent of the total exports.

Table 1: Earnings from Exports

Category	August 2014 (US\$ mn)	August 2015 (US\$ mn)	Change (%)	Jan-Aug 2014 (US\$ mn)	Jan-Aug 2015 (US\$ mn)	Change (%)
1. Industrial exports	749.6	618.2	(17.5)	5,491.6	5,446.1	(0.8)
Textiles and garments	428.6	400.1	(6.6)	3,256.0	3,218.7	(1.1)
Rubber products	82.4	55.1	(33.1)	599.0	524.9	(12.4)
Gems, diamonds and jewellery	37.5	22.3	(40.5)	268.9	218.8	(18.6)
Machinery and mechanical appliances	32.1	19.4	(39.8)	224.6	197.3	(12.2)
Transport equipment	32.7	4.6	(85.9)	98.4	219.7	123.2
Petroleum products	25.3	25.3	(0.2)	237.8	289.4	21.7
Printing industry products	5.9	9.6	62.4	32.3	32.6	0.9
Food beverages & tobacco	28.1	18.5	(34.3)	194.6	174.3	(10.5)
Other	76.9	63.4	(17.5)	580.0	570.5	(1.6)
2. Agricultural exports	239.4	177.8	(25.8)	1,848.4	1,667.8	(9.8)
Tea	138.9	91.8	(33.9)	1,083.1	901.2	(16.8)
Coconut	35.0	29.5	(15.9)	233.9	238.0	1.8
Seafood	19.8	11.5	(41.7)	176.4	112.5	(36.2)
Spices	24.1	30.1	24.7	161.0	249.3	54.8
Unmanufactured Tobacco	3.0	3.3	8.8	27.5	22.5	(18.2)
Other	18.6	11.6	(37.5)	166.5	144.4	(13.3)
3. Mineral and other	3.6	2.9	(19.3)	59.2	32.6	(44.9)
Total exports	992.6	798.9	(19.5)	7,399.1	7,146.5	(3.4)

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 August 2015 declined by 11.7 per cent, year on year, to US dollars, 1,523 million. Despite the considerable expansion in import expenditure on consumer goods and investment goods, a substantial reduction in intermediate goods imports mainly due to a significant decline in fuel imports led to this decline. The drop in international oil prices to a six year low level in August 2015 together with the decline in the import volume of refined petroleum resulted in a 60.5 per cent reduction in the fuel import bill. In addition, import expenditure on textiles and textile articles and wheat and maize also declined by 28.0 per cent and 65.5 per cent, respectively, on a year-on-year, contributing considerably for the decline in import expenditure in August 2015. The 56.9 per cent increase in the expenditure on importation of motor vehicles for personal usage, mainly contributed for the increase in consumer goods imports. Despite the marginal decline in import expenditure on

machinery and equipment and building materials, a significant increase of 95.0 per cent in imports of transport equipment contributed to the 8.9 per cent increase in investment goods imports. High expenditure on imports of auto-trishaws and tractors mainly contributed to the increase in importation of transport equipment.

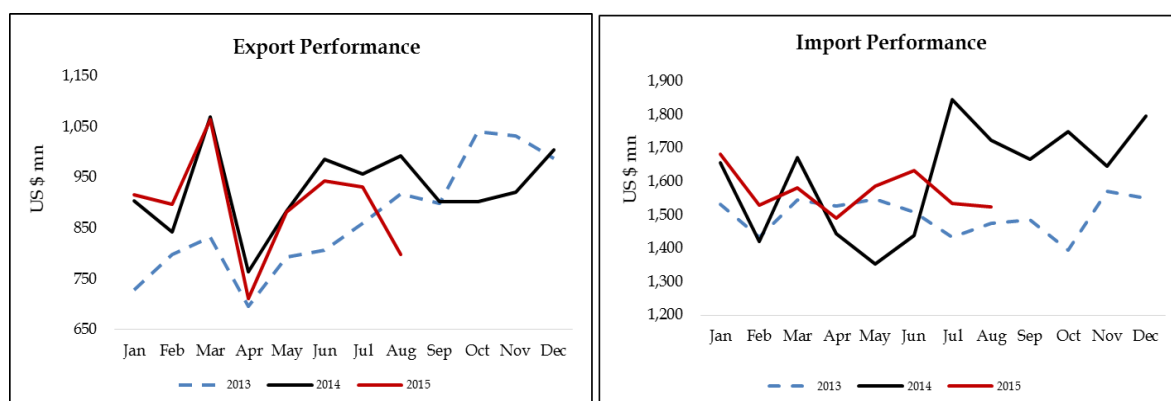
On a cumulative basis, expenditure on imports during the first eight months of 2015 increased by US dollars 4 million to US dollars 12,559 million, despite the significant drop in international commodity prices, especially fuel. During the period from January to August 2015, the main import origin countries were India, China, Japan, UAE and Singapore accounting for about 61 per cent of total imports.

Table 2: Expenditure on Imports

Category	August 2014 (US\$ mn)	August 2015 (US\$ mn)	Change (%)	Jan-Aug 2014 (US\$ mn)	Jan-Aug 2015 (US\$ mn)	Change (%)
1. Consumer goods	327.8	420.3	28.2	2,288.3	3,142.4	37.3
Food and beverages	121.8	121.1	(0.6)	995.6	1,124.4	12.9
Sugar and confectionery	26.9	22.0	(18.1)	204.1	186.9	(8.4)
Cereals and milling industry products	13.1	2.0	(84.8)	86.8	138.8	60.0
Dairy products	23.5	23.8	1.2	237.6	169.6	(28.6)
Other food and beverages	58.2	73.3	25.8	467.1	629.1	34.7
Non-food consumer goods	206.1	299.2	45.2	1,292.7	2,018.0	56.1
Medical and pharmaceuticals	31.5	36.9	17.0	248.1	304.7	22.8
Vehicles	102.2	160.3	56.9	476.4	904.6	89.9
Other non- food consumables	72.4	102.1	41.0	568.2	808.7	42.3
2. Intermediate goods	1,061.5	738.7	(30.4)	7,738.9	6,397.2	(17.3)
Fuel	472.0	186.5	(60.5)	3,448.5	1,789.3	(48.1)
Textiles and textile articles	214.3	154.2	(28.0)	1,469.7	1,547.4	5.3
Chemical products	69.5	84.0	20.9	512.5	585.8	14.3
Plastic and articles thereof	52.8	55.6	5.2	386.0	408.7	5.9
Mineral products	11.9	10.5	(11.8)	152.4	136.5	(10.4)
Rubber and articles thereof	17.9	47.0	162.1	102.2	185.3	81.3
Wheat and maize	40.8	14.1	(65.5)	268.0	214.0	(20.1)
Fertiliser	10.2	15.8	53.8	163.2	162.0	(0.7)
Other	172.1	171.1	(0.5)	1,236.5	1,368.3	10.7
3. Investment goods	334.0	363.8	8.9	2,519.0	3,007.4	19.4
Machinery and equipment	170.4	161.1	(5.5)	1,369.0	1,482.9	8.3
Building materials	122.1	121.9	(0.2)	837.2	845.1	1.0
Transport equipment	41.3	80.5	95.0	310.7	676.3	117.7
Other	0.2	0.3	59.6	2.1	3.0	41.1
4. Unclassified	1.2	0.5	(53.8)	8.6	11.5	34.3
Total imports	1,724.5	1,523.4	(11.7)	12,554.8	12,558.6	0.0

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

Figure 1: Export and Import Performance



Source: Central Bank of Sri Lanka
Sri Lanka Customs

Trade Balance

The deficit in the trade account in August 2015 contracted marginally by 1.0 per cent to US dollars 724 million in comparison to US dollars 732 million recorded in August 2014. However, on a cumulative basis, the trade deficit during the first eight months of 2015 increased by 5.0 per cent to US dollars 5,412 million.

Earnings from Tourism

The robust growth in tourist arrivals continued in September 2015 with 143,374 tourist arrivals, registering a year-on-year growth of 35.9 per cent. Tourist arrivals during the first three quarters of the year totalled 1,315,839 reflecting a growth of 18.8 per cent over the corresponding period of 2014. Of the top ten source countries for tourist arrivals, all had recorded growth in the range of 18 – 48 per cent, except Malaysia. Although the highest number of tourist arrivals in September 2015 was recorded from India, China and Germany, the highest year-on-year growth rates were observed in arrivals from Israel (185.1 per cent), Kuwait (91.4 per cent) and UAE (73.3 per cent), among others. This reflects the existence of untapped potential in many countries which have not been traditional sources of tourist arrivals in the past.

Reflecting the growth trend observed in tourist arrivals, the earnings from tourism also registered a sharp growth of 35.9 per cent (year-on-year), to US dollars 228

million¹ in September 2015. The cumulative earnings from tourism during the first three quarters are estimated to have increased by 18.8 per cent to US dollars 2,095 million in comparison to US dollars 1,763 million recorded during the corresponding period of 2014.

Workers' Remittances

During August 2015, the pace of growth of workers' remittances recovered as related foreign exchange inflows grew by 3.3 per cent to US dollars 566 million compared to US dollars 548 million in August 2014. On a cumulative basis, workers' remittances up to August 2015 amounted to US dollars 4,598 million registering a growth of 1.8 per cent over the corresponding period in 2014.

Financial Flows

Foreign investments in the government securities market recorded a net outflow of US dollars 920 million during the first nine months of 2015 compared to a net inflow of 100 million during the corresponding period of 2014. The Colombo Stock Exchange recorded a net inflow of US dollars 9.2 million up to end September 2015, which comprised net outflows of US dollars 23.4 million of foreign investments from the secondary market and net inflows to the primary market amounting to US dollars 32.6 million. Foreign investments remained subdued over the past few months, as a result of rebalancing of portfolios in the wake of a possible hike in the US interest rates. Over the first eight months of 2015, long term loans to the government registered a net inflow of US dollars 193 million, compared to the net inflow of US dollars 653 million recorded during the corresponding period of 2014.

Overall Balance of Payments Position

The BOP is estimated to have recorded an overall deficit of US dollars 1,795 million during the first eight months of 2015 in comparison to a surplus of US dollars 2,150 million recorded a year earlier.

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.

International Reserves and Exchange Rate Movement

Sri Lanka's gross official reserves stood at US dollars 6.5 billion as at end August 2015, equivalent to 4.0 months of imports, with total foreign assets amounting to US dollars 8.2 billion, equivalent to 5.1 months of imports. Meanwhile, the Sri Lankan rupee depreciated by 4.6 per cent, subsequent to the decision of the Central Bank on September 04, 2015 to accommodate greater flexibility in the determination of the exchange rate, resulting in an overall depreciation of 7.1 per cent during the year up to October 21, 2015. Over the year, based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the Australian dollar by 5.0 per cent and the Canadian dollar by 4.1 while depreciating against the Japanese yen by 6.6 per cent, the pound sterling by 6.3 per cent, the euro by 0.4 per cent and the Indian rupee by 4.5 per cent.

Table 3: Summary of External Sector Performance (a)

Category	Aug 2014 US\$ mn	Aug 2015 US\$ mn	Change (%)	Jan- Aug 2014 US\$ mn	Jan-Aug 2015 US\$ mn	Change (%)
Exports	992.6	798.9	(19.5)	7,399.1	7,146.5	-3.4
Imports	1,724.5	1,523.4	(11.7)	12,554.8	12,558.6	0.0
Trade balance	(731.9)	(724.5)	(1.0)	(5,155.7)	(5,412.0)	5.0
Earnings from tourism	223.4(b)	265.2	18.7	1,594.5	1,866.5	17.1
Workers' remittances	548.15	566.0	3.3	4,514.7	4,598.0	1.8
Inflows to the CSE (Net) (c)	(27.6)	(32.2)	16.7	56.7	7.8	(86.2)
Inflows to the government (d)	202.7	468.6	131.2	4,297.7	2,380.6	(44.6)
of which,						
Treasury bills and bonds	137.2	372.1	171.2	1,546.8	1,003.4	(35.1)
International Sovereign Bonds	-	-	-	1,500.0	650.0	(56.7)
Long term loans	65.0	96.4	48.3	1,184.0	703.1	(40.6)

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.