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Press Release

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External Sector Performance–September 2015

Overview

Sri Lanka's external sector performance remained modest in September 2015, on year-on-year basis, supported by the healthy growth in tourist earnings and moderate increase in workers' remittances. Although the trade deficit had contracted during the month, on a cumulative basis, the trade deficit increased to US dollars 6,145 million, during the period January - September 2015. In the wake of a possible increase in interest rates in the U.S., net inflows to the financial account moderated, in line with the trend that has been observed across emerging markets. The external sector is expected to strengthen in the coming months with the recent policy adjustments implemented by the Central Bank and the government.

Export Performance

Earnings from exports at US dollars 850 million in September 2015 reflected a year-on-year contraction of 5.9 per cent the seventh consecutive decline since March 2015. The largest contribution to this drop came from industrial exports, which declined by 4.7 per cent, led by subdued performance of rubber products, gems, diamonds and jewellery, machinery and mechanical appliances and printing industry

products, which jointly attribution to around 60 per cent of the overall decline in exports. However, export earnings from textiles and garments, which account for around 48 per cent of total exports increased by 1.8 per cent, year-on-year during the month, reflecting a considerable expansion in garments exports to non-traditional markets such as Canada, Australia, India, United Arab Emirates and Hong Kong. Meanwhile, earnings from agricultural exports in September 2015 declined by 11.3 per cent, year-on-year, mainly due to significant declines recorded in tea and sea food exports as in last few months. Tea exports have been severely affected by the lower demand from Russia and the Middle East countries. Accordingly, tea export earnings dropped by 20.4 per cent in September 2015 compared to the corresponding month in 2014, reflecting declines in both export volumes and export prices. The average export price of tea decreased to US dollars 4.32 per kilogram compared to US dollars 5.01 per kilogram recorded in September 2014. Seafood exports also continued to decline in September 2015 due to the European Union ban on sea food imports from Sri Lanka. Accordingly, seafood exports to the EU market dropped by 82.4 per cent, year-on-year, in September 2015. However, continuing the healthy performance observed in previous months of the year, earnings from exports of spices increased by 34.9 per cent during the month, led by exports of pepper and cloves.

On a cumulative basis, earnings from exports contracted by 3.7 per cent during the first nine months of the year reflecting declines in both agricultural and industrial exports. The leading markets for merchandise exports of Sri Lanka during the first nine months of 2015 were the USA, the UK, India, Germany, Italy and China which accounted for about 54 per cent of total exports.

Table 1: Earnings from Exports

Category	September 2014 (US\$ mn)	September 2015 (US\$ mn)	Change (%)	Jan-Sep 2014 (US\$ mn)	Jan-Sep 2015 (US\$ mn)	Change (%)
1. Industrial exports	667.5	636.4	(4.7)	6,159.0	6,082.5	(1.2)
Animal fodder	4.0	7.1	76.0	50.8	58.2	14.5
Textiles and garments	403.8	411.2	1.8	3,659.7	3,629.9	(0.8)
Rubber products	70.5	58.6	(16.9)	669.5	583.5	(12.9)
Gems, Diamonds and Jewellery	32.5	24.6	(24.4)	301.4	243.4	(19.2)
Machinery and mechanical appliances	29.3	23.5	(19.6)	253.8	220.8	(13.0)
Chemical products	11.7	12.2	4.2	101.4	95.8	(5.4)
Printing industry products	10.9	5.2	(52.3)	43.2	37.8	(12.6)
Other	104.7	94.0	(10.3)	1,079.1	1,213.1	12.4
2. Agricultural exports	231.9	205.6	(11.3)	2,080.3	1,873.5	(9.9)
Tea	133.6	106.3	(20.4)	1,216.7	1,007.5	(17.2)
Coconut	33.4	34.6	3.5	267.3	272.6	2.0
Spices	27.4	37.0	34.9	188.5	286.3	51.9
Minor agricultural products	10.6	11.4	7.8	114.6	118.1	3.0
Sea Food	17.7	10.0	(43.4)	194.1	122.5	(36.9)
Other	9.1	6.3	(31.2)	99.1	66.5	(32.9)
3. Mineral and other	3.5	7.6	119.0	62.6	40.2	(35.9)
Total exports	902.8	849.6	(5.9)	8,302.0	7,996.1	(3.7)

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

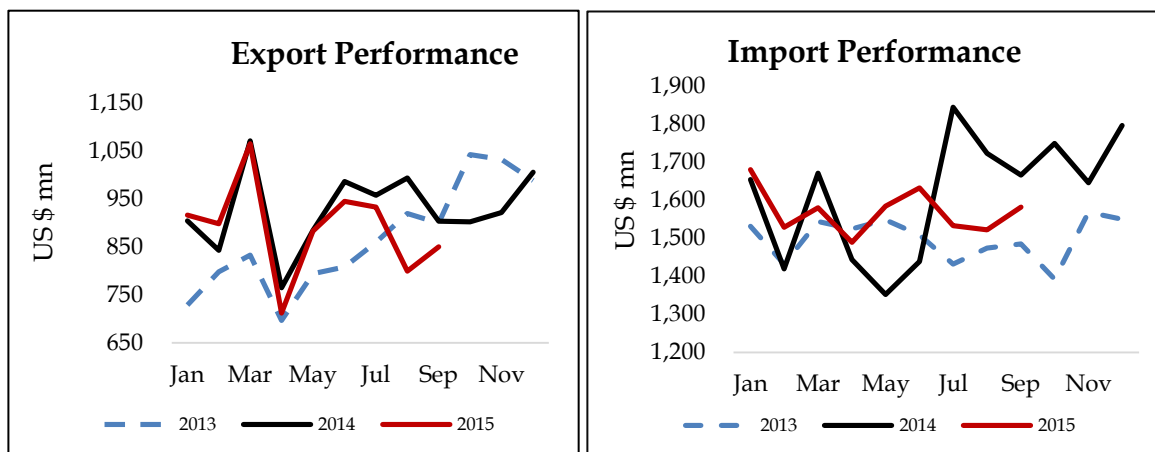
Import Performance

Expenditure on imports declined by 5.1 per cent, year-on-year, to US dollars 1,583 million in September 2015. The largest contribution for this decline came from investment goods, followed by intermediate goods. Reduction in imports of transport equipment was the main contributor for the decline recorded in investment goods imports. Despite the considerable growth recorded in commercial vehicles, such as auto-trishaws, commercial cabs and agricultural tractors, expenditure on imports of transport equipment dropped by 47.9 per cent in September 2015, mainly reflecting the higher import expenditure recorded in September 2014 due to import of a dredger vessel. In line with the reduction in fuel prices in the international market, fuel import bill declined continuously becoming the main contributor for the 4.8 per cent reduction in import expenditure on

intermediate goods. The average crude oil import price, which was US dollars 100.08 per barrel in September 2014, declined to US dollars 48.65 per barrel in September 2015. Import expenditure on textiles and textile articles, diamonds and precious stones and metals and base metals also dropped significantly during the month. However, import expenditure on wheat and maize, fertiliser and mineral products, which are categorized under intermediate goods, increased significantly in September 2015. Continuing the year-on-year increases recorded from May 2014, import expenditure on consumer goods increased by 7.4 per cent in September 2015, led by vehicle imports. Expenditure on personal motor vehicle imports increased by 30.2 per cent, year-on-year, in September 2015 led by imports of motor cars and electric vehicles. Further, increase in import expenditure on clothing and accessories, telecommunication devices and seafood also contributed largely for the increase in the import of consumer goods.

On a cumulative basis, expenditure on imports during the first nine months of 2015 decreased marginally by 0.6 per cent, year-on-year, to US dollars 14,141 million mainly led by the 16.1 per cent drop in expenditure on intermediate goods imports. During the first nine 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: Sri Lanka Customs
Central Bank of Sri Lanka

Table 2: Expenditure on Imports

Category	September 2014 (US\$ mn)	September 2015 (US\$ mn)	Change (%)	Jan-Sep 2014 (US\$ mn)	Jan-Sep 2015 (US\$ mn)	Change (%)
1. Consumer goods	365.5	392.4	7.4	2,653.8	3,534.8	33.2
Food and beverages	151.7	115.4	(23.9)	1,147.3	1,239.8	8.1
Cereals and milling industry products	47.3	4.5	(90.5)	134.1	143.3	6.8
Dairy products	26.7	19.0	(28.9)	264.4	188.6	(28.7)
Seafood	12.9	24.6	90.8	102.7	153.7	49.7
Other food and beverages	64.7	67.3	4.0	646.1	754.2	16.7
Non-food consumer goods	213.8	276.9	29.5	1,506.5	2,294.9	52.3
Medical and pharmaceuticals	32.1	37.3	16.1	280.3	342.0	22.0
Vehicles	97.0	126.2	30.2	573.4	1,030.9	79.8
Other non- food consumables	84.7	113.4	33.9	652.9	922.0	41.2
2. Intermediate goods	870.7	829.0	(4.8)	8,609.7	7,226.2	(16.1)
Fuel	295.3	226.4	(23.4)	3,743.8	2,015.6	(46.2)
Textile and textile articles	199.1	168.2	(15.5)	1,668.8	1,715.6	2.8
Chemical products	68.3	67.5	(1.2)	580.8	653.2	12.5
Wheat and maize	38.9	74.2	90.5	307.0	288.3	(6.1)
Base metals	39.8	25.0	(37.4)	356.0	350.8	(1.5)
Fertilisers	7.7	38.8	407.0	170.8	200.8	17.5
Mineral products	15.7	41.6	165.1	168.1	178.1	5.9
Unmanufactured tobacco	5.8	6.2	7.2	50.5	66.8	32.3
Other	200.1	181.2	(9.4)	1,563.8	1,757.0	12.3
3. Investment goods	428.8	359.6	(16.1)	2,947.8	3,367.0	14.2
Machinery and equipment	177.2	166.8	(5.9)	1,546.3	1,649.7	6.7
Building materials	111.3	119.5	7.3	948.5	964.6	1.7
Transport equipment	140.1	73.0	(47.9)	450.7	749.4	66.2
Other	0.2	0.3	108.1	2.3	3.4	45.9
4. Unclassified	2.4	1.8	(28.1)	11.0	13.3	20.5
Total imports	1,667.5	1,582.7	(5.1)	14,222.3	14,141.3	(0.6)

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

Trade Balance

The deficit in the trade account in September 2015 contracted by 4.1 per cent to US dollars 733 million in comparison to US dollars 765 million in September 2014. However, on a cumulative basis, the trade deficit during the first nine months of 2015 increased by 3.8 per cent to US dollars 6,145 million.

Earnings from Tourism

Tourist arrivals continued to grow in October 2015 with 132,280 tourists, registering a year-on-year growth of 8.8 per cent. Tourist arrivals during the first ten months of

the year totalled 1,448,119 reflecting a growth of 17.9 per cent over the corresponding period of 2014. India and China continued to lead the top ten source countries for tourist arrivals with Chinese tourist arrivals recording the highest growth (year-on-year) of 70.4 per cent during the period.

Earnings from tourism grew by 8.8 per cent (year-on-year) to US dollars 210.6 million¹ in October 2015. Earnings from tourism during the first ten months are estimated to have increased by 17.9 per cent to US dollars 2,305.3 million in comparison to US dollars 1,956.1 million recorded during the corresponding period of 2014.

Workers' Remittances

During September 2015, the pace of growth of workers' remittances slowed with foreign exchange inflows growing marginally by 1.6 per cent to US dollars 584.2 million compared to US dollars 575.0 million in September 2014. On a cumulative basis, workers' remittances up to September 2015 amounted to US dollars 5,182.2 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 1,043 million during the first ten months of 2015 compared to a net outflow of US dollars 109 million during the corresponding period of 2014. The Colombo Stock Exchange recorded a net inflow of US dollars 5.4 million up to end October 2015, which comprised net outflows of US dollars 27.2 million of foreign investments from the secondary market and net inflows to the primary market, as at end September 2015, 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 US interest rates. Long term loans to the government also remained low and registered a net inflow of US dollars 180.9 million, during the first three quarters of the year, compared to the net inflow of US dollars 611.5 million recorded during the corresponding period of 2014.

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.

Overall Balance of Payments (BOP) Position

The BOP is estimated to have recorded an overall deficit of US dollars 2,316 million during the first three quarters of 2015 in comparison to a surplus of US dollars 1,996 million recorded a year earlier.

International Reserves and Exchange Rate Movement

Sri Lanka's gross official reserves stood at US dollars 6.8 billion as at end September 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. Meanwhile, subsequent to the decision of the Central Bank on September 04, 2015 to accommodate greater flexibility in the determination of the exchange rate, the Sri Lankan rupee has depreciated by 5.9 per cent, resulting in an overall depreciation of 8.5 per cent during the year up to December 08, 2015. Over the year, based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 2.5 per cent, Australian dollar by 3.5 per cent and the Canadian dollar by 6.7 per cent while depreciating against the Japanese yen by 5.6 per cent, the pound sterling by 5.4 per cent, and the Indian rupee by 3.6 per cent.

Table 3: Summary of External Sector Performance (a)

Category	Sep 2014 US\$ mn	Sep 2015 US\$ mn	Change (%)	Jan- Sep 2014 US\$ mn	Jan-Sep 2015 US\$ mn	Change (%)
Exports	902.8	849.6	-5.9	8,302.0	7,996.1	-3.7
Imports	1,667.5	1,582.7	-5.1	14,222.3	14,141.3	-0.6
Trade balance (surplus+)/deficit(-)	-764.6	-733.1	-4.1	-5,920.3	-6,145.2	3.8
Earnings from tourism	168.0(b)	228.2	35.9	1,762.5	2,094.7	18.8
Workers' remittances	575.0	584.2	1.6	5,089.7	5,182.2	1.8
Inflows to the CSE (Net) (c)	-9.5	1.3	-114.0	47.2	9.2	-80.6
Inflows to the government (d)	133.1	169.7	27.4	4,430.9	2,599.1	-41.3
of which,						
Treasury bills and bonds	63.6	88.3	39.0	1,610.4	1,091.7	-32.2
International Sovereign Bonds	-	-	-	1,500.0	650.0	-56.7
Long term loans	68.7	81.4	18.4	1,252.7	833.0	-33.5

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.