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Press Release

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External Sector Performance–October 2015

Overview

Sri Lanka's external sector reflected a modest performance in the month of October 2015 with lower trade deficit, continued growth in tourist earnings and a moderate increase in workers' remittances. Despite the slowdown in imports during the recent months, the cumulative trade deficit as at end October 2015 increased by 2.5 per cent mainly due to the subdued export performance as a result of depressed global demand. As at end October 2015, gross official reserves stood at US dollars 6.5 billion, and increased to US dollars 7.3 billion in November 2015 with the receipt of the proceeds of the 9th international sovereign bond issuance and other currency inflows.

Export Performance

Earnings from exports at US dollars 847.3 million in October 2015 declined by 6.0 per cent, year-on-year, reflecting lower earnings from exports of all major categories mainly due to weak global demand. Tea, rubber products and garments exports contributed largely to the overall decline in exports. The continued decline in demand for tea from Russia and the Middle East mainly caused export earnings to

decline significantly by 11.2 per cent, year-on-year in October 2015. As a result, the average export prices of tea decreased by 16.7 per cent to US dollar 4.11 per kilogram during the month compared with US dollars 4.93 per kilogram recorded in October 2014. Export earnings from garments, which contribute nearly 43 per cent to total exports, declined by 3.6 per cent in October 2015, reflecting significantly lower exports to EU markets. Earnings from rubber product exports continued to weaken and recorded an 18.7 per cent year-on-year decline in October reflecting a substantial reduction in global demand. Lower export earnings from gems, diamonds and jewellery, petroleum products and sea food also contributed considerably to the overall decline in exports. However, earnings from spice exports recorded a continuous growth so far this year.

On a cumulative basis, earnings from exports declined by 3.9 per cent to US dollars 8,843 million during the first ten months of 2015, reflecting a significant decline in earnings from tea, rubber products and sea food exports. The leading markets for merchandise exports of Sri Lanka during the first ten months of 2015 were the USA, UK, India, Germany and Italy accounting for about 51 per cent of total exports.

Table 1: Earnings from Exports

Category	October 2014 (US\$ mn)	October 2015 (US\$ mn)	Change (%)	Jan-Oct 2014 (US\$ mn)	Jan-Oct 2015 (US\$ mn)	Change (%)
1. Industrial exports	666.7	626.9	(6.0)	6,825.8	6,709.4	(1.7)
Textiles and garments	398.4	386.7	(2.9)	4,058.2	4,016.6	(1.0)
Rubber products	77.8	63.2	(18.7)	747.3	646.7	(13.5)
Gems, Diamonds and Jewellery	34.9	27.0	(22.6)	336.3	270.5	(19.6)
Petroleum products	26.6	18.8	(29.3)	283.8	325.9	14.8
Food, beverages and tobacco	20.7	23.0	11.1	239.5	218.5	(8.8)
Animal fodder	3.2	6.7	110.7	54.0	64.8	20.1
Printing industry products	0.6	2.8	336.8	43.8	40.6	(7.4)
Other	104.6	98.7	(5.6)	1,062.9	1,125.9	5.9
2. Agricultural exports	231.1	217.5	(5.9)	2,311.4	2,091.0	(9.5)
Tea	134.3	119.3	(11.2)	1,351.0	1,126.8	(16.6)
Coconut	35.0	32.1	(8.2)	302.3	304.7	0.8
Spices	24.5	36.7	50.0	212.9	323.0	51.7
Minor agricultural products	13.3	10.0	(25.2)	127.9	128.0	0.1
Sea Food	16.7	12.1	(27.3)	210.8	134.6	(36.1)
Other	7.4	7.3	(0.2)	106.5	73.8	(30.6)
3. Mineral and other	4.0	2.9	(28.9)	66.7	43.0	(35.4)
Total exports	901.8	847.3	(6.0)	9,203.8	8,843.4	(3.9)

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

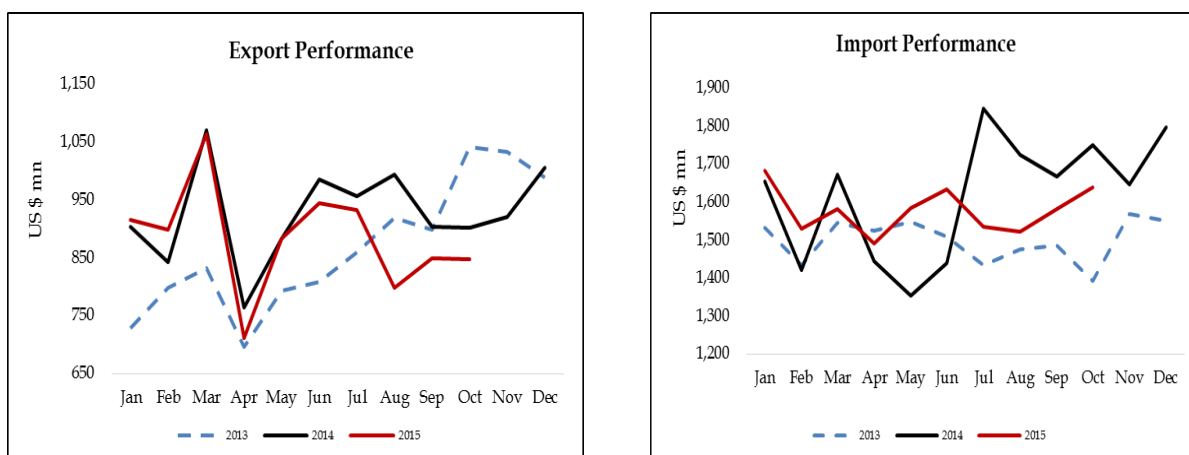
Import Performance

Continuing the declining trend recorded in the preceding three months, expenditure on imports decreased by 6.4 per cent, year-on-year, to US dollars 1,638.3 million in October 2015. The largest contribution for this reduction had come from fuel imports, followed by rice and textile and textile articles. Despite the increase in import volumes of both crude oil and refined petroleum, the fuel import bill declined by 30.5 per cent in October 2015 reflecting the substantial decrease in oil prices. The average import price of crude oil declined to US dollars 49.3 per barrel in October 2015 compared to US dollars 99.4 per barrel recorded in October 2014. In line with the reduction recorded in garment exports, import expenditure on textile and textile articles declined by 21.0 per cent during the month. Rice imports declined by around 98 per cent in October 2015, year-on-year, reflecting the base effect of significantly high rice imports recorded in the previous year owing to lower

domestic supply. Meanwhile, wheat and diamond imports also declined significantly. However, imports of consumer durables continued to increase in October 2015, driven mainly by personal motor vehicles. Expenditure on importation of personal motor vehicles increased by 23.6 per cent, year-on-year, higher growth in the import of motor cars despite the decline recorded in import of motorcycles. Further, imports of auto trishaws also increased by more than two fold in October 2015.

During the first ten months of 2015, expenditure on imports decreased by 1.2 per cent to US dollars 15,780 million, mainly led by a 15.8 per cent drop in expenditure on intermediate goods imports. During the period from January to October 2015, the main import origin countries were India, China, Japan, UAE and Singapore accounting for about 60 per cent of total imports.

Figure 1: Export and Import Performance



Source: Sri Lanka Customs
Central Bank of Sri Lanka

Table 2: Expenditure on Imports

Category	October 2014 (US\$ mn)	October 2015 (US\$ mn)	Change (%)	Jan-Oct 2014 (US\$ mn)	Jan-Oct 2015 (US\$ mn)	Change (%)
1. Consumer goods	411.5	403.9	(1.8)	3,065.3	3,938.7	28.5
Food and beverages	169.4	110.9	(34.5)	1,316.7	1,350.8	2.6
Cereals and milling industry products	58.4	2.6	(95.5)	192.6	145.9	(24.2)
Dairy products	28.2	19.4	(31.3)	292.6	208.0	(28.9)
Seafood	13.7	19.1	39.0	116.4	172.8	48.5
Other food and beverages	69.0	69.8	1.2	715.1	824.0	15.2
Non-food consumer goods	242.1	293.0	21.0	1,748.6	2,587.9	48.0
Medical and pharmaceuticals	33.7	41.5	23.4	313.9	383.6	22.2
Vehicles	117.7	145.5	23.6	691.1	1,176.4	70.2
Other non- food consumables	90.7	105.9	16.8	743.5	1,028.0	38.3
2. Intermediate goods	941.7	820.6	(12.9)	9,551.3	8,046.8	(15.8)
Fuel	329.1	228.7	(30.5)	4,072.9	2,244.3	(44.9)
Textile and textile articles	217.3	171.6	(21.0)	1,886.1	1,887.2	0.1
Wheat and maize	35.1	14.4	(59.0)	342.1	302.6	(11.5)
Mineral products	10.2	31.9	212.2	178.3	210.0	17.8
Fertilisers	23.2	40.0	72.5	194.0	240.8	24.1
Base metals	35.1	48.9	39.5	391.0	399.7	2.2
Rubber and articles thereof	18.4	30.1	63.7	141.2	236.3	67.4
Chemical products	68.3	78.9	15.6	649.1	732.2	12.8
Other	205.0	176.0	(14.1)	1,696.6	1,793.6	5.7
3. Investment goods	396.2	413.1	4.3	3,344.0	3,780.1	13.0
Machinery and equipment	197.6	209.5	6.0	1,743.9	1,859.2	6.6
Building materials	135.2	126.2	(6.7)	1,083.7	1,090.8	0.7
Transport equipment	62.9	76.6	21.7	513.7	826.0	60.8
Other	0.5	0.8	75.4	2.8	4.2	50.7
4. Unclassified	0.8	0.7	(10.4)	11.8	14.0	18.4
Total imports	1,750.2	1,638.3	(6.4)	15,972.5	15,779.6	(1.2)

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

Trade Balance

The deficit in the trade account in October 2015 contracted by 6.8 per cent to US dollars 791 million in comparison to US dollars 848 million in October 2014. However, the trade deficit for the first ten months of 2015 increased by 2.5 per cent to US dollars 6,936 million.

Earnings from Tourism

Tourist arrivals continued its growth momentum in November 2015 with 144,147 tourist arrivals, reflecting a growth of 20.4 per cent during the month. Tourist arrivals during the first eleven months of the year totalled 1,592,266 showing a

growth of 18.1 per cent over the same period of 2014. India and China continued to lead the top ten source countries for tourist arrivals with Indian and Chinese tourist arrivals recording the highest growth of 29.7 per cent and 68.9 per cent, respectively, during the period.

Reflecting the growth trend observed in tourist arrivals, earnings from tourism also registered a significant growth of 20.4 per cent (year-on-year), to US dollars 229.5 million in November 2015.¹ The cumulative earnings from tourism during the first eleven months are estimated to have increased by 18.1 per cent to US dollars 2,534.8 million in comparison to US dollars 2,146.7 million recorded during the corresponding period of 2014.

Workers' Remittances

Foreign exchange inflows from workers' remittances at US dollars 605.1 million in October 2015 recorded a marginal increase of 0.8 per cent compared to US dollars 600.1 million in October 2014. Workers' remittances during the first ten months of the year grew by 1.7 per cent to US dollars 5,787.3 million from US dollars 5,689.7 million in the corresponding period of 2014.

Financial Flows

Foreign investments in the government securities market recorded a net outflow of US dollars 1,092.2 million during the first eleven months of 2015 compared to a net outflow of US dollars 104.5 million during the corresponding period of 2014. The Colombo Stock Exchange (CSE) recorded a net inflow of US dollars 7.5 million up to end November 2015, which comprised net outflows of US dollars 27.7 million of foreign investment from the secondary market and net inflows to the primary market amounting to US dollars 35.2 million. Foreign investments remained subdued over the past few months, as a result of rebalancing of portfolios with the expectation of interest rate hike in the US. Over the first ten months of 2015, long term loans to the government registered a net inflow of US dollars 182.2 million,

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

compared to the net inflow of US dollars 737.9 million recorded during the corresponding period of 2014.

Overall Balance of Payments (BOP) Position

The overall BOP is estimated to have recorded a deficit of US dollars 2,337.2 million during the first ten months of 2015 in comparison to a surplus of US dollars 1,761.1 million recorded during the corresponding period of 2014.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves stood at US dollars 6.5 billion as at end October 2015, equivalent to 4.0 months of imports, with total foreign assets amounting to US dollars 8.0 billion, equivalent to 5.0 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 6.64 per cent, resulting in an overall depreciation of 9.03 per cent during the year up to December 31, 2015. Over the year, based on cross currency exchange rate movements, the Sri Lankan rupee has appreciated against the Australian dollar by 2.42 per cent and the euro by 1.30 per cent, while depreciating against the Japanese yen by 8.20 per cent, the pound sterling by 4.46 per cent and the Indian rupee by 4.62 per cent during this period.

Table 3: Summary of External Sector Performance (a)

Category	Oct 2014 US\$ mn	Oct 2015 US\$ mn	Change (%)	Jan- Oct 2014 US\$ mn	Jan-Oct 2015 US\$ mn	Change (%)
Exports	901.8	847.3	-6.0	9,203.8	8,843.4	-3.9
Imports	1,750.2	1,638.3	-6.4	15,972.5	15,779.6	-1.2
Trade balance (surplus+)/deficit(-)	-848.3	-791.0	-6.8	6,768.7	6,936.2	2.5
Earnings from tourism	193.5(b)	210.6	8.8	1,956.1	2,305.3	17.9
Workers' remittances	600.1	605.1	0.8	5,689.7	5,787.3	1.7
Inflows to the CSE (Net) (c)	59.7	-1.3	-102.2	106.9	7.9	-92.6
Inflows to the government (d)	199.8	1,599.9	700.7	4,630.7	4,182.9	-9.7
of which,						
Treasury bills and bonds	26.7	43.2	62.1	1,637.1	1,135.0	-30.7
International Sovereign Bonds	-	1,500.0	-	1,500.0	2,150.0	43.3
Long term loans	164.2	56.2	-65.8	1,416.9	871.1	-38.5

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, proceeds from International Sovereign Bond issuances and long term loans.