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CENTRAL BANK OF SRI LANKA

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# **Press Release**

**Issued By** Economic Research Department

**Date** 28.01.2016

## **External Sector Performance–November 2015**

### **Overview**

The trade deficit contracted in November 2015 compared to the corresponding month of 2014 due to the decline in import expenditure at a higher rate than the reduction in export earnings. Tourist earnings continued to increase, but the growth in workers' remittances moderated. Inflows to the financial account strengthened with the proceeds from the latest International Sovereign Bond of US dollars 1,500 million.

### **Export Performance**

Earnings from exports declined by 9.3 per cent, year-on-year, to US dollars 835 million in November 2015. This was mainly due to the declines recorded in tea, rubber products, petroleum products and garments exports. The currency depreciation and geo-political development, particularly in the Middle East countries caused continued decline in demand for tea. Accordingly export earnings from tea declined significantly by 21.1 per cent, year-on-year, in November 2015. However, the average export price of tea remained unchanged from the previous

month at US dollar 4.11 per kilogram though down from US dollars 4.75 per kilogram recorded in November 2014. Earnings from rubber product exports continued to weaken and recorded a 19.5 per cent decline, year-on-year, in November. Adding to that, petroleum products exports recorded a 40.5 per cent decline as a result of the lower prices for bunkering and aviation fuel, despite bunkering quantity increased by 32.9 per cent, year-on-year, in November 2015. Export earnings from garments, which contribute nearly 46 per cent to the total exports, declined by 2.7 per cent in November 2015, reflecting low exports to EU markets. However, garment exports to USA and non-traditional markets increased by 9.3 per cent and 7.5 per cent, year-on-year, respectively, in November 2015. Further, lower export earnings from machinery and mechanical appliances, coconut products and sea food also contributed considerably to the overall decline in exports. However, earnings from spice exports continuously recorded a growth so far this year. Adding to that, sub categories of gems and edible nuts showed growth in the month of November 2015.

On a cumulative basis, earnings from exports declined by 4.4 per cent to US dollars 9,679 million during the first eleven months of 2015, reflecting the significant decline in earnings from tea, rubber products and sea food exports. The leading markets for merchandise exports of Sri Lanka during the first eleven months of 2015 were the USA, UK, India, Germany, Italy and China accounting for about 54 per cent of the total exports.

**Table 1: Earnings from Exports**

Category	November 2014 (US\$ mn)	November 2015 (US\$ mn)	Change (%)	Jan-Nov 2014 (US\$ mn)	Jan- Nov 2015 (US\$ mn)	Change (%)
<b>1. Industrial exports</b>	<b>684.1</b>	<b>633.2</b>	<b>(7.4)</b>	<b>7,509.9</b>	<b>7,342.6</b>	<b>(2.2)</b>
Textiles and garments	420.7	410.2	(2.5)	4,478.9	4,426.8	(1.2)
of which Garments	398.3	387.7	(2.7)	4,250.2	4,186.3	(1.5)
Rubber products	69.6	56.0	(19.5)	816.9	702.7	(14.0)
Machinery and mechanical appliances	29.1	22.2	(23.8)	312.0	270.4	(13.3)
Petroleum products	29.9	17.8	(40.5)	313.6	343.6	9.6
Animal fodder	4.8	4.9	1.2	58.8	69.7	18.5
Gems, Diamonds and Jewellery	27.8	34.2	22.9	364.1	304.7	(16.3)
of which Gems	9.5	20.0	110.7	163.7	147.0	(10.2)
Transport equipment	4.4	7.0	59.3	115.2	238.2	106.8
Other	97.9	81.0	(17.3)	1,050.3	986.5	(6.1)
<b>2. Agricultural exports</b>	<b>233.1</b>	<b>199.4</b>	<b>(14.5)</b>	<b>2,544.5</b>	<b>2,290.4</b>	<b>(10.0)</b>
Tea	137.6	108.5	(21.1)	1,488.6	1,235.3	(17.0)
Coconut	27.6	23.3	(15.5)	329.8	328.0	(0.6)
Spices	23.3	30.1	29.1	236.2	353.0	49.5
Minor agricultural products	16.1	17.9	11.1	144.1	146.0	1.3
of which Edible Nuts	9.0	11.7	29.2	51.7	63.7	23.2
Sea Food	20.1	13.4	(33.3)	230.9	148.0	(35.9)
Other	8.5	6.2	(27.4)	114.9	80.0	(30.4)
<b>3. Mineral and other</b>	<b>3.9</b>	<b>2.6</b>	<b>(33.3)</b>	<b>70.6</b>	<b>45.6</b>	<b>(35.3)</b>
<b>Total exports</b>	<b>921.2</b>	<b>835.2</b>	<b>(9.3)</b>	<b>10,125.0</b>	<b>9,678.6</b>	<b>(4.4)</b>

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

## **Import Performance**

In line with the substantial decline in international oil prices, expenditure on imports in November 2015 continued to decline by 11.0 per cent, year on year, to US dollars 1,465 million, the lowest monthly import expenditure in 2015. Despite the increase in import expenditures on consumer goods and investment goods, a substantial reduction in import expenditure on intermediate goods led to this decline. The drop in international oil prices in November 2015 resulted in a 27.9 per cent decline in the fuel import bill despite the increases in import volumes of both crude oil and refined petroleum. The average import price of crude oil declined to US dollars 45.46 per barrel in November 2015 compared to US dollars 76.82 per barrel recorded in November 2014. In addition, import expenditure on textiles and textile articles, fertiliser and diamonds and precious stones and metals also declined by 22.3 per cent, 61.6 per cent and 80.7 per cent, respectively, on a year-on-year basis, contributing more than 55 per cent of the overall decline in import expenditure in November 2015. Import expenditure on rice declined significantly in November 2015 for the seventh consecutive month mainly due to the availability of rice in the local market and higher imports recorded in the previous year. Import expenditure on transport equipment declined by 41.4 per cent, year-on-year, mainly due to the higher imports in November 2014 largely reflecting the impact of the import of a cruise ship and three light vessels. Even though, expenditure on vehicle imports recorded a lower value in November 2015, compared to the previous month, it increased by 25.0 per cent on a year-on-year basis mainly due to the increase of importation of motor cars. Further, imports of building materials and machinery and equipment, increased during the month.

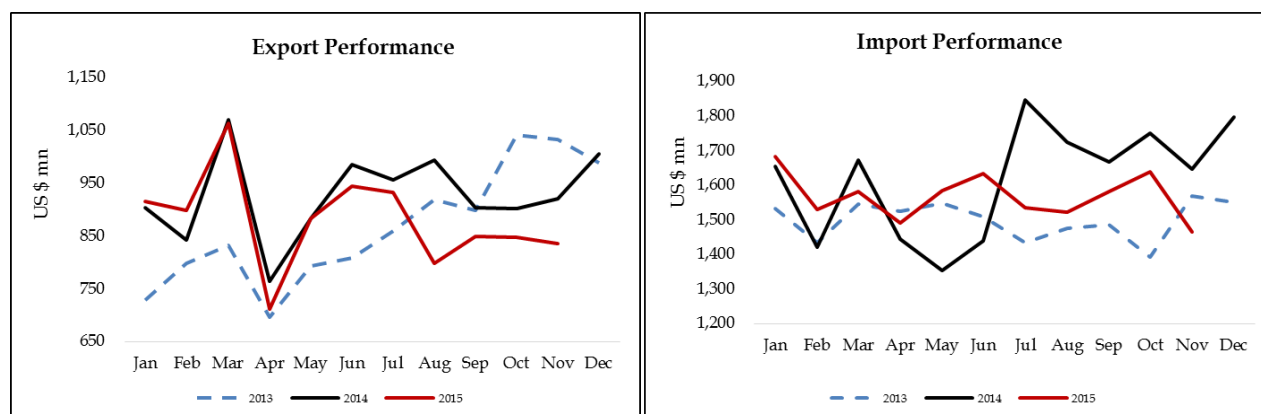
On a cumulative basis, expenditure on imports declined by 2.1 per cent to US dollars 17,244 million during the first eleven months of 2015. The main import origins were India, China, Japan, UAE and Singapore accounting for about 61 per cent of the total imports by November 2015.

**Table 2: Expenditure on Imports**

Category	November 2014 (US\$ mn)	November 2015 (US\$ mn)	Change (%)	Jan-Nov 2014 (US\$ mn)	Jan-Nov 2015 (US\$ mn)	Change (%)
<b>1. Consumer goods</b>	<b>365.1</b>	<b>391.0</b>	<b>7.1</b>	<b>3,430.4</b>	<b>4,329.6</b>	<b>26.2</b>
Food and beverages	147.8	127.6	(13.7)	1,464.5	1,478.3	0.9
Cereals and milling industry products	53.5	2.6	(95.1)	246.0	148.5	(39.6)
Dairy products	25.4	21.6	(15.0)	318.0	229.6	(27.8)
Seafood	13.2	21.2	59.9	129.6	194.0	49.6
Sugar and confectionery	7.6	16.7	120.7	245.2	238.0	(2.9)
Other food and beverages	48.1	65.5	36.2	525.5	668.2	27.2
Non-food consumer goods	217.3	263.4	21.2	1,965.9	2,851.3	45.0
Medical and pharmaceuticals	30.8	35.0	13.6	344.8	418.6	21.4
Vehicles	94.1	117.6	25.0	785.2	1,294.0	64.8
Other non- food consumables	92.4	110.8	19.8	836.0	1,138.7	36.2
<b>2. Intermediate goods</b>	<b>909.5</b>	<b>690.6</b>	<b>(24.1)</b>	<b>10,460.8</b>	<b>8,737.3</b>	<b>(16.5)</b>
Fuel	268.6	193.7	(27.9)	4,341.4	2,438.0	(43.8)
Textile and textile articles	215.7	167.7	(22.3)	2,101.8	2,054.9	(2.2)
Fertilisers	54.1	20.8	(61.6)	248.2	261.6	5.4
Diamonds and precious stones and metals	25.2	4.9	(80.7)	158.1	147.4	(6.8)
Paper and paperboard and articles thereof	47.9	34.4	(28.4)	440.4	431.6	(2.0)
Mineral products	12.6	11.5	(8.6)	190.9	221.5	16.0
Plastic and articles thereof	51.6	52.3	1.2	549.3	562.6	2.4
Wheat and maize	14.9	19.6	31.7	357.0	322.3	(9.7)
Other	218.8	185.8	(15.1)	2,073.8	2,297.6	10.8
<b>3. Investment goods</b>	<b>371.1</b>	<b>382.6</b>	<b>3.1</b>	<b>3,715.1</b>	<b>4,162.7</b>	<b>12.0</b>
Machinery and equipment	180.0	195.1	8.4	1,923.9	2,054.2	6.8
Building materials	97.9	132.7	35.6	1,181.5	1,223.5	3.6
Transport equipment	92.2	54.1	(41.4)	605.9	880.0	45.2
Other	1.0	0.7	(26.6)	3.8	4.9	30.3
<b>4. Unclassified</b>	<b>1.2</b>	<b>0.8</b>	<b>(34.0)</b>	<b>13.0</b>	<b>14.8</b>	<b>13.6</b>
<b>Total imports</b>	<b>1,646.8</b>	<b>1,464.9</b>	<b>(11.0)</b>	<b>17,619.3</b>	<b>17,244.4</b>	<b>(2.1)</b>

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

**Figure 1: Export and Import Performance**



## **Trade Balance**

The trade deficit in November 2015 contracted significantly by 13.2 per cent to US dollars 630 million in comparison to US dollars 726 million in November 2014. However, the trade deficit for the first eleven months of 2015 marginally increased by 1.0 per cent to US dollars 7,566 million.

## **Earnings from Tourism**

Tourist arrivals recorded a growth of 15.4 per cent, year-on-year, in December 2015, with 206,114 tourists arriving during the month. Consequently, the cumulative tourist arrivals in 2015 increased by 17.8 per cent to 1,798,380 compared to 2014. The top five sources of tourist arrivals during 2015 were India, China, UK, Germany and Maldives, accounting for 50.0 per cent of the total tourist arrivals during the year. The cumulative earnings from tourism increased to US dollars 2,862.9 million during 2015<sup>1</sup> compared to US dollars 2,431.1 million recorded during 2014.

## **Workers' Remittances**

Workers' remittances declined by 7.2 per cent, year-on-year, to US dollars 574.5 million in November 2015 from US dollars 619.3 million recorded in November 2014. The cumulative inflow from workers' remittances increased marginally by 0.8 per cent to US dollars 6,361.8 million during the first eleven months of 2015 in comparison to the corresponding period of 2014. The comparatively low growth in workers' remittances during this period could be attributed to the drop in income in oil exporting Middle Eastern countries with decline in world oil prices.

## **Financial Flows**

Inflows to the financial account continued to be affected by the expectation of the interest rate hike in the US which was eventually announced by the US Federal Reserve Bank on 16 December 2015. Accordingly, foreign investments in the government securities market recorded a net outflow of US dollars 1,093.4 million

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<sup>1</sup> 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.

during 2015 compared to a net outflow of US dollars 113.1 million during 2014. Meanwhile, foreign investments in the Colombo Stock Exchange (CSE) during 2015 recorded a net inflow of US dollars 4.0 million, reflecting net outflows from the secondary market amounting to US dollars 32.3 million and inflows to the primary market amounting to US dollars 36.3 million. During the first eleven months of 2015, the net long term loan inflows to the Government amounted to US dollars 179.0 million. Meanwhile, Sri Lanka successfully issued the ninth international sovereign bond of US dollars 1,500 million on 28 October 2015 and the proceeds were received in the first week of November 2015.

### **Overall Balance of Payments (BOP) Position**

During the year upto end November 2015, the overall BOP is estimated to have recorded a deficit of US dollars 1,274.2 million, compared to a surplus of US dollars 1,628.3 million recorded during the corresponding period of 2014.

### **International Reserves and Exchange Rate Movements**

Sri Lanka's gross official reserves as at end November 2015 amounted to US dollars 7.3 billion, equivalent to 4.6 months of imports while total foreign assets amounted to US dollars 9.1 billion, equivalent to 5.7 months of imports. The gross official reserves are estimated to be US dollars 7.3 billion by end December 2015.

The Sri Lankan rupee depreciated against the US dollar by 9.03 per cent during 2015. During 2016 up to 27 January 2016, the rupee appreciated by 0.1 per cent against the US dollar. Based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the euro by 0.7 per cent, the Australian dollar by 3.8 per cent, the pound sterling by 3.5 per cent and the Indian rupee by 2.2 per cent, while depreciating against the Japanese yen by 1.8 per cent during this period.

**Table 3: Summary of External Sector Performance (a)**

Category	Nov 2014 US\$ mn	Nov 2015 US\$ mn	Change (%)	Jan- Nov 2014 US\$ mn	Jan-Nov 2015 US\$ mn	Change (%)
Exports	921.2	835.2	-9.3	10,125.0	9,678.6	-4.4
Imports	1,646.8	1,464.9	-11.0	17,619.3	17,244.4	-2.1
Trade balance (surplus+)/deficit(-)	-725.7	-629.7	-13.2	-7,494.3	-7,565.9	1.0
Earnings from tourism	190.6(b)	229.5	20.4	2,146.7	2,534.8	18.1
Workers' remittances	619.3	574.5	-7.2	6,309.0	6,361.8	0.8
Inflows to the CSE (Net) (c)	43.3	-0.4	-101.0	150.2	7.5	-95.0
Inflows to the government (d)	96.9	116.9	20.6	4,727.6	4,304.5	-8.9
of which,						
Treasury bills and bonds	74.2	70.1	-5.6	1,711.2	1,205.0	-29.6
International Sovereign Bonds	-	-	-	1,500.0	2,150.0	43.3
Long term loans	21.8	46.7	114.0	1,438.0	922.5	-35.9

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.