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Press Release

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External Sector Performance – January 2016

Overview

Sri Lanka's external sector showed a modest performance during the month of January 2016. The trade deficit narrowed in January 2016 while foreign currency inflows in the form of tourist earnings recorded a relatively high growth and inflows from workers' remittances also improved. The trade deficit narrowed on account of the higher decline in import expenditure mainly due to the drop in fuel, vehicle and rice imports, compared to the decline in earnings from exports during January 2016. However, the government securities market and the Colombo Stock Exchange recorded net outflows during the period.

Export Performance

Earnings from exports declined for the eleventh consecutive month in January 2016 recording a 2.5 per cent decline, year-on-year, to US dollars 894 million largely reflecting continuous decline recorded in commodity prices in the international market. Exports of petroleum products, gems, diamonds and jewellery, tea, and spices mainly contributed for this decline. Earnings from petroleum products in January 2016 declined by 53.3 per cent, year-on-year, reflecting a drop in both bunkering quantity and average price level. Exports of gems, diamonds and

jewellery showed a significant decline of 33.4 per cent owing to declines recorded in exports of gem and diamond sub categories. The continuous weakening of demand for Ceylon tea from the major tea export destinations mainly Russia, Turkey and some Middle-Eastern countries, caused export earnings from tea to decline by 12.4 per cent in January 2016, year-on-year. Both the export volume and the average price of tea were lower than previous year. Earnings from spices exports, which improved significantly during the year 2015, declined by 26.8 per cent in January 2016, year-on-year, reflecting declines in pepper, cloves and nutmeg exports despite the significant growth recorded in exports of cinnamon. Further, machinery and mechanical appliances, leather, travel goods and footwear and minor agricultural products also contributed to the drop in earnings of exports in January 2016. However, export earnings from textiles and garments, which contributed nearly 52 per cent to the total exports, improved by 13.3 per cent year-on-year in January 2016, reversing the declining trend prevailed in last quarter of 2015. Garment exports to both traditional and non-traditional markets improved during the month. In addition, earnings from rubber products increased by 11.1 per cent, year-on-year, during the month mainly due to the growth in earnings from exports of rubber tires. In addition, earnings from coconut showed a significant improvement while earnings from the export of food, beverages and tobacco, animal fodder, and plastics and articles thereof showed a marginal improvement in January 2016.

In January 2016, main export destinations were the USA, UK, Germany, India and Italy, accounting for about 53 per cent of the total exports.

Table 1: Earnings from Exports

USD Mn

Category	Jan-15	Jan-16	Growth (%)
1. Industrial Exports	710.7	711.5	0.1
Textiles and garments	409.9	464.4	13.3
Rubber products	64.2	71.3	11.1
Gems, diamonds and jewellery	44.4	29.6	(33.4)
Petroleum products	61.3	28.6	(53.3)
Food beverages & tobacco	21.2	22.0	3.8
Machinery and mechanical appliances	27.2	20.7	(24.1)
Other	82.6	74.9	(9.3)
2. Agricultural Exports	202.0	179.5	(11.1)
Tea	113.5	99.4	(12.4)
Coconut	19.2	24.5	27.3
Spices	31.1	22.8	(26.8)
Sea Food	16.6	15.2	(8.2)
Rubber	2.4	3.5	44.1
Other	19.2	14.1	(26.3)
3. Mineral and Other Exports	4.0	2.9	(27.4)
Total Exports	916.7	893.9	(2.5)

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 prevailed during the last six months, expenditure on imports contracted by 5.5 per cent, year-on-year, to US dollars 1,589 million in January 2016. Significant decline recorded in expenditure on fuel imports followed by rice imports and vehicle imports for personal use and investment purposes contributed mainly to this reduction in imports. Import expenditure on fuel declined significantly by 39.6 per cent, year-on-year, to US dollars 175 million, due to the drop in average import prices of all categories of fuel together with lower import volume of refined petroleum and coal. Continuing the declining trend prevailed during the previous year, international oil prices dropped further in January 2016, which resulted in decline of the average import price of crude oil to US dollars 31.87 per

barrel compared to US dollars 55.47 per barrel recorded in January 2015. Meanwhile, expenditure on rice imports declined by 98.0 per cent to US dollars 1.1 million in January 2016 for the ninth consecutive month in comparison to US dollars 55 million in the corresponding month of 2015 due to bumper paddy harvest recorded in 2015. Reflecting the impact of increase in taxes for motor vehicles by the budget for 2016 expenditure on importation of vehicles for personal use and investment purposes which categorised under consumer goods and investment goods declined significantly by 12.6 per cent and 42.3 per cent, respectively, in January 2016. Due to this tax increase, importation of personal motor vehicles, such as motor cars and motor cycles and road vehicles such as lorries, trishaws and buses which import specially for investment purposes declined during the month. In addition, expenditure on base metals and sugar and confectionery imports also contributed towards reducing the import expenditure in January 2016. However, in line with the growth recorded in the export earnings from textiles and garments, import expenditure on textile and textile articles increased by 25.4 per cent, in January 2016 owing to the 34.0 per cent increase recorded in fabrics imports. Also reflecting the increases recorded in all sub categories, except iron and steel and insulated wires and cables, expenditure on building materials increased by 23.7 per cent, on a year-on-year in January 2016. Although the 14.6 per cent decline recorded in average import prices, expenditure on wheat and maize imports increased significantly by 102.0 per cent, year-on-year, due to the substantial 136.6 per cent growth recorded in import volumes. Further, import expenditure on diamonds and precious stones and metals, machinery and equipment, and vegetables also increased during the month.

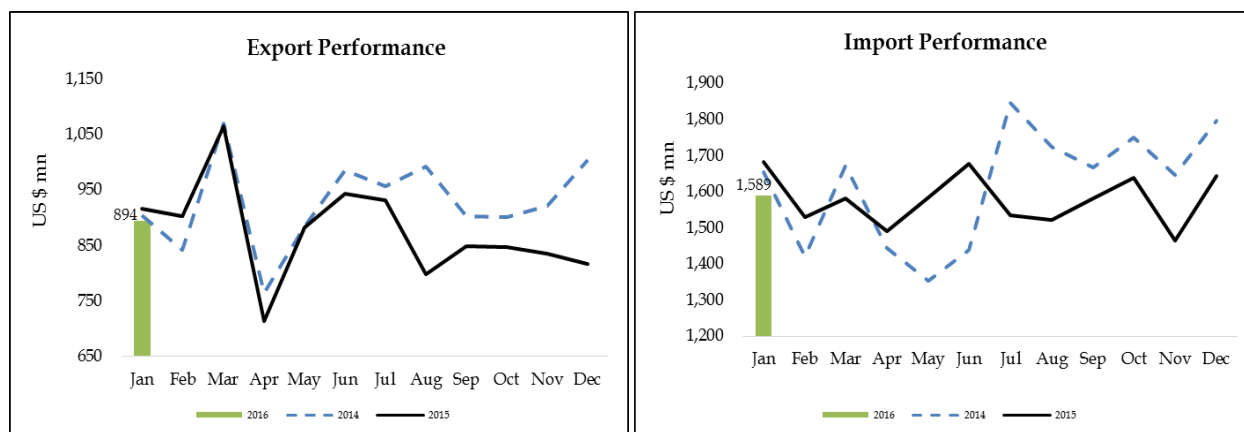
In January 2016, main import origins were China, India, Japan, UAE and South Korea, accounting for about 54 per cent of the total imports.

Table 2: Expenditure on Imports

			USD Mn
Category	Jan -2015	Jan - 2016	Growth (%)
1. Consumer goods	397.3	343.5	(13.5)
Food and beverages	169.5	118.6	(30.0)
Vegetables	37.9	44.3	16.8
Dairy products	14.5	18.1	24.9
Sugar & confectionery	19.2	9.6	(50.1)
Cereals and milling industry products	56.5	1.8	(96.8)
Other food and beverages	41.5	44.9	8.2
Non-food consumer goods	227.8	224.9	(1.3)
Vehicles	99.5	86.9	(12.6)
Medical and pharmaceuticals	36.6	41.5	13.5
Other non- food consumables	91.7	96.4	5.1
2. Intermediate goods	841.6	801.2	(4.8)
Textiles and textile articles	200.0	250.9	25.4
Fuel	289.2	174.8	(39.6)
Chemical products	74.5	68.5	(7.9)
Plastic & articles thereof	50.8	44.8	(11.8)
Wheat and maize	21.3	43.0	102.0
Base metals	49.5	30.9	(37.6)
Diamonds and precious stones & metals	6.5	24.7	278.0
Rubber & articles thereof	22.3	19.5	(12.5)
Other	127.5	144.0	12.9
3. Investment goods	441.8	443.9	0.5
Machinery and equipment	240.6	255.5	6.2
Building materials	109.1	135.0	23.7
Transport equipment	91.1	52.6	(42.3)
Other	1.0	0.9	(8.3)
4. Unclassified	0.8	0.5	(41.4)
Total imports	1,681.6	1,589.1	(5.5)

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 contracted in January 2016, by 9.1 per cent, on a year-on-year basis, to US dollars 695 million compared to US dollars 765 million in January 2015.

Earnings from Tourism

Tourist arrivals at 197,697 continued to expand, recording a growth of 19.4 per cent in February 2016. Meanwhile, tourist arrivals grew by 21.8 per cent during the first two months of 2016 totalling 391,977. China and India continued to be the main source markets for tourism with arrivals from these two countries growing by 48.8 per cent and 29.1 per cent, respectively during the first two months of 2016. Cumulative earnings from tourism grew by 21.8 per cent, year-on-year, to US dollars 649.7 million during the period.¹

Workers' Remittances

Receipt of workers' remittances grew by 7.6 per cent to US dollars 563.4 million in January 2016 compared to US dollars 523.5 million in January 2015. The expansion in workers' remittances is partially attributable to the base effect with the decline in earnings during January 2015. However, prevailing low oil prices and the resultant

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 2016.

stagnation of income levels in the Middle Eastern countries could have impacted adversely on inflows from workers' remittances.

Financial Flows

The government securities market continued to experience a net outflow in terms of foreign investments with a cumulative outflow of US dollars 253.6 million during the first two months of 2016 compared to an outflow of US dollars 12.8 million in the corresponding period of 2015. The Colombo Stock Exchange (CSE) recorded a net outflow of US dollars 10.1 million up to end February 2016, which comprised net outflows of US dollars 10.3 million of foreign investment from the secondary market and inflows of US dollars 0.2 million to the primary market. Long term loans to the Government registered a net outflow of US dollars 68.3 million in January 2016, compared to the net inflow of US dollars 26.7 million recorded in January 2015.

Overall Balance of Payments (BOP) Position

In January 2016, the BOP is estimated to have recorded a deficit of US dollars 619.3 million, compared to the deficit of US dollars 696.5 million in the corresponding period of 2015.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end January 2016 amounted to US dollars 6.3 billion, equivalent to 4.0 months of imports while total foreign assets amounted to US dollars 8.4 billion, equivalent to 5.4 months of imports.

During 2016 up to 05 May, the rupee depreciated by 1.1 per cent against the US dollar. Based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against the pound sterling by 0.9 per cent, while depreciating against the Australian dollar by 3.7 per cent, the Japanese yen by 12.1 per cent, the euro by 6.0 per cent and the Indian rupee by 0.9 per cent during this period.

Table 3: Summary of External Sector Performance (a)

Category	January 2015 US\$ mn	January 2016 US\$ mn	Change (%)
Exports	916.7	893.9	-2.5
Imports	1,681.6	1,589.1	-5.5
Trade balance (surplus+)/deficit(-)	-765.0	-695.2	-9.1
Earnings from tourism	259.0(b)	322.0	24.3
Workers' remittances	523.5	563.4	7.6
Inflows to the CSE (Net) (c)	0.9	-18.9	
Inflows to the government (d)	185.2	84.3	-54.5
of which,			
Treasury bills and bonds	81.2	13.2	-83.7
International Sovereign Bonds	-	-	-
Long term loans	103.9	71.0	-31.7

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.