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CENTRAL BANK OF SRI LANKA

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Press Release

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External Sector Performance–February 2016

Overview

Sri Lanka's external sector showed a modest performance during the month of February 2016 as the trade deficit contracted and foreign currency inflows in the form of tourist earnings and workers' remittances continued to record a steady pace of growth. Despite the decline in earnings from exports during the month, the larger decline in expenditure on fuel imports, food and beverages and transport equipment resulted in the contraction of the trade deficit. However, the government securities market and the Colombo Stock Exchange recorded net outflows during the period.

Export Performance

Earnings from exports declined by 1.7 per cent, year-on-year, to US dollars 888 million in February 2016 reflecting lower commodity prices in the international market. The largest contribution to this decline was from the petroleum products exports, followed by gems, diamonds and jewellery and spices exports. Earnings from petroleum products in February 2016 declined by 55.6 per cent, year-on-year, reflecting a reduction in both bunker fuel export volume and average price level. Gems, diamonds and jewellery exports showed a drop of 33.2 per cent in February 2016, recording declines in all sub categories. Meanwhile, export earnings from

spices decreased by 34.8 per cent owing to reductions in earnings from cloves, pepper and nutmeg due to lower export volumes. Tea and rubber products also contributed significantly for the decline in export earnings. Export earnings from tea and rubber products dropped by 6.8 per cent and 10.7 per cent, respectively, in February 2016, due to depressed demand and lower prices. However, exports of textiles and garments, which comprise nearly 52 per cent of total exports, increased by 10.3 per cent during the month and helped to contain the negative growth of total exports to some extent. Garments exports to the European Union and the United States have increased by 11.7 per cent and 8.7 per cent, respectively, in February 2016.

On a cumulative basis, earnings from exports declined by 2.0 per cent to US dollars 1,783 million during the first two months of 2016. The leading markets for merchandise exports during the first two months of 2016 were the USA, UK, Germany, India and Italy accounting for about 54 per cent of total exports.

Table 1: Earnings from Exports

Category	February 2015 (US\$ mn)	February 2016 (US\$ mn)	Change (%)	Jan-Feb 2015 (US\$ mn)	Jan-Feb 2016 (US\$ mn)	Change (%)
1. Industrial exports	695.1	701.4	0.9	1,405.7	1,413.9	0.6
Food, Beverages & Tobacco	20.9	30.4	45.6	42.1	52.4	24.6
Textiles and garments	419.9	463.1	10.3	829.7	927.5	11.8
Rubber products	67.5	60.2	(10.7)	131.7	131.5	(0.1)
Gems, Diamonds and Jewellery	36.9	24.7	(33.2)	81.3	55.3	(32.0)
Machinery and mechanical appliances	26.5	24.5	(7.5)	53.7	45.2	(15.9)
Petroleum products	41.6	18.5	(55.6)	102.8	47.1	(54.2)
Leather, Travel goods & Footwear	10.8	12.1	12.1	26.1	24.4	(6.6)
Other	71.0	67.9	(4.4)	138.4	130.6	(5.6)
2. Agricultural exports	202.9	182.1	(10.2)	404.8	361.6	(10.7)
Tea	108.4	101.0	(6.8)	221.9	200.4	(9.7)
Rubber	2.5	3.3	28.9	4.9	6.7	36.3
Spices	30.9	20.1	(34.8)	62.0	42.9	(30.8)
Minor agricultural products	14.1	9.3	(34.1)	26.7	18.8	(29.3)
Sea Food	11.2	14.7	32.2	27.7	30.0	8.0
Unmanufactured Tobacco	2.6	3.1	21.4	6.4	5.9	(8.7)
Other	33.2	30.6	(8.0)	55.2	56.9	3.0
3. Mineral and other	5.1	4.2	(18.1)	9.1	7.1	(22.2)
Total exports	903.0	887.7	(1.7)	1,819.7	1,782.6	(2.0)

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 5.9 per cent, year-on-year, to US dollars 1,439 million in February 2016, continuing the year-on-year declining trend observed in the preceding seven months. The largest contribution to this decline came from fuel imports, which declined by 43.7 per cent to US dollars 149 million, as average crude oil import price declined to US dollars 35.36 per barrel in February 2016 compared to US dollars 69.52 per barrel recorded in February 2015. However, import volumes of

refined petroleum products increased mainly due to higher thermal power generation. Continuing the declining trend observed from May 2015, expenditure on rice imports declined to US dollars 0.7 million in February 2016, in comparison to US dollars 18 million in the corresponding month of 2015 due to the bumper paddy harvest obtained in 2015. In addition, import expenditure on transport equipment and building materials, which is categorised under investment goods, decreased significantly by 24.9 per cent and 10.4 per cent, respectively, in February 2016. However, import expenditure on machinery and equipment increased significantly by 21.2 per cent during the month.

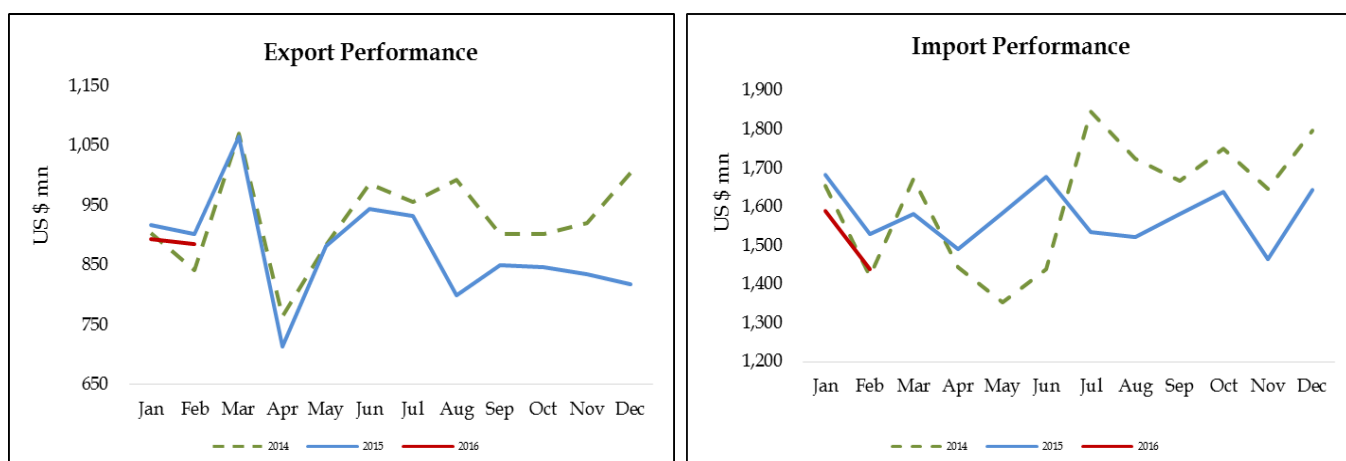
On a cumulative basis, expenditure on imports during the first two months of 2016 decreased by 5.7 per cent to US dollars 3,028 million, driven by fuel imports. During the first two months of 2016, main import origins were China, India, Japan, Singapore and UAE accounting for about 56 per cent of total imports.

Table 2: Expenditure on Imports

Category	February 2015 (US\$ mn)	February 2016 (US\$ mn)	Change (%)	Jan-Feb 2015 (US\$ mn)	Jan-Feb 2016 (US\$ mn)	Change (%)
1. Consumer goods	352.5	345.6	(2.0)	749.8	689.1	(8.1)
Food and beverages	145.9	122.6	(16.0)	315.5	241.2	(23.5)
Vegetables	35.5	37.5	5.8	73.4	81.8	11.5
Sugar & confectionery	23.8	18.3	(22.9)	43.0	27.9	(35.1)
Cereals and milling industry products	19.3	1.3	(93.3)	75.7	3.1	(95.9)
Seafood	16.4	19.3	17.2	29.0	35.2	21.3
Other food and beverages	51.0	46.1	(9.5)	94.3	93.1	(1.3)
Non-food consumer goods	206.5	223.0	8.0	434.3	447.9	3.1
Medical and pharmaceuticals	33.5	42.3	26.3	70.1	83.8	19.6
Vehicles	58.8	64.5	9.8	158.2	151.4	(4.3)
Other non- food consumables	114.3	116.1	1.6	206.0	212.6	3.2
2. Intermediate goods	814.3	724.0	(11.1)	1,656.0	1,525.2	(7.9)
Fuel	264.4	148.8	(43.7)	553.6	323.6	(41.5)
Textile and textile articles	211.1	225.0	6.6	411.1	475.9	15.8
Wheat and maize	3.1	10.2	229.5	24.4	53.2	118.1
Diamonds and precious stones & metals	19.5	38.9	98.8	26.1	63.6	143.7
Base metals	32.9	26.2	(20.3)	82.4	57.1	(30.7)
Other	283.3	274.9	(3.0)	558.4	551.8	(1.2)
3. Investment goods	362.3	369.4	2.0	804.2	813.4	1.1
Machinery and equipment	173.4	210.2	21.2	414.0	465.7	12.5
Building materials	118.1	105.9	(10.4)	227.3	240.8	6.0
Transport equipment	70.3	52.8	(24.9)	161.5	105.4	(34.8)
Other	0.4	0.5	32.0	1.4	1.4	3.2
4. Unclassified	0.4	0.3	(25.4)	1.3	0.8	(35.8)
Total imports	1,529.5	1,439.3	(5.9)	3,211.2	3,028.4	(5.7)

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 trade deficit contracted by 11.9 per cent in February 2016, year-on-year, to US dollars 552 million, owing to the sharp decline in imports which significantly outpaced the fall in exports. The cumulative trade deficit decreased by 10.5 per cent to US dollars 1,246 million in the first two months of 2016 from US dollars 1,391 million in the corresponding period in 2015.

Earnings from Tourism

Tourist arrivals continued to record a healthy growth of 22.8 per cent in March 2016 with 192,841 arrivals. On a cumulative basis, tourist arrivals had grown by 22.1 per cent during the first quarter of 2016 when compared to the corresponding period of 2015. While China and India continued to lead the performance of tourist arrivals, recording a growth of 46.6 per cent and 32.2 per cent, respectively, during the first quarter of 2016, tourist arrivals from Europe and the Middle East regions continued to grow at 20.6 per cent and 13.7 per cent, respectively, despite economic and political concerns in these regions. Cumulative earnings from tourism grew by 22.1 per cent, year-on-year, to US dollars 969.3 million during the period.¹

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 2016.

Workers' Remittances

Receipt of workers' remittances grew by 8.3 per cent to US dollars 554.2 million in February 2016. The expansion in workers' remittances is partially attributable to the base effect with the lower performance observed in February 2015. The currently prevailing low oil prices and the resultant stagnation of income levels in the Middle Eastern countries, are expected to continue to weigh negatively 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 net outflow of US dollars 572.3 million during the first three months of 2016 compared to a net outflow of US dollars 15.4 million in the corresponding period of 2015. The Colombo Stock Exchange (CSE) recorded a net outflow of US dollars 12.5 million up to end March 2016, which comprised net outflow of US dollars 13.8 million of foreign investment from the secondary market and inflows of US dollars 1.3 million to the primary market. Long term loans to the Government registered a net outflow of US dollars 9.6 million in February 2016, compared to the net inflow of US dollars 6.4 million recorded in February 2015.

Overall Balance of Payments (BOP) Position

In February 2016, the BOP is estimated to have recorded a deficit of US dollars 534 million, compared to the deficit of US dollars 692 million in the corresponding period of 2015.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end February 2016 amounted to US dollars 6.6 billion, equivalent to 4.2 months of imports while total foreign assets amounted to US dollars 8.5 billion, equivalent to 5.5 months of imports.

During the year up to 06 June, the rupee depreciated by 1.3 per cent against the US dollar. Based on cross currency exchange rate movements, the Sri Lankan rupee appreciated against pound sterling (1.7 per cent) while depreciating against the Australian dollar (1.6 per cent), the Japanese yen (12.5 per cent), and the euro (4.9 per cent), by 06 June 2016.

Table 3: Summary of External Sector Performance (a)

Category	Feb	Feb	Change (%)	Jan - Feb	Jan - Feb	Change (%)
	2015	2016		2015	2016	
	US\$ mn	US\$ mn		US\$ mn	US\$ mn	
Exports	903.0	887.7	-1.7	1,819.7	1,782.6	-2.0
Imports	1,529.5	1,439.3	-5.9	3,211.2	3,028.4	-5.7
Trade balance (surplus+)/deficit(-)	-626.5	-551.7	-11.9	-1,391.5	-1,245.8	-10.5
Earnings from tourism	274.4(b)	327.7	19.4	533.3	649.7	21.8
Workers' remittances	511.6	554.2	8.3	1,035.2	1,117.6	8.0
Inflows to the CSE (Net) (c)	27.2	8.8	-67.7	28.1	-10.1	-136.0
Inflows to the government (d)	166.4	52.6	-68.4	365.8	141.5	-61.3
of which,						
Treasury bills and bonds	109.2	9.7	-91.1	190.4	23.0	-87.9
International Sovereign Bonds	-	-	-	-	-	-
Long term loans	54.2	42.7	-21.2	158.2	113.8	-28.0

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.