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Press Release

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External Sector Performance–March 2016

Overview

The external sector performance moderated with an expansion of the trade deficit in March 2016. Earnings from exports declined while imports reduced marginally during the month compared to the previous year. However, during the first quarter of 2016, the trade deficit contracted compared to the corresponding period of 2015 due to the reduction in imports which outweighed the reduction in exports. Tourist earnings and workers' remittances increased, strengthening the current account of the Balance of Payments (BOP) while inflows to the financial account continued to moderate.

Export Performance

Earnings from exports declined by 11.2 per cent, year-on-year, to US dollars 945 million in March 2016 from US dollars 1,065 million recorded in March 2015, the highest monthly earnings in 2015. The largest contribution for this decline came from transport equipment followed by exports of spices. Earnings from transport

equipment declined by 76.6 per cent, year-on-year, mainly due to significantly higher level of exports recorded in the corresponding month of 2015 owing to export of a dredger vessel which was imported in 2014 for the use of the Port City Development Project. Continuing the declining trend observed from the latter part of 2015, export earnings from spices decreased by 37.7 per cent, year-on-year, in March 2016, reflecting substantial reduction in cloves and pepper exports due to lower harvest. Reflecting continuous decline in demand from major tea importers especially Russia and the Middle East, earnings from tea exports declined marginally by 0.6 per cent in March 2016. However, earnings from textiles and garments exports, which accounted for 46.7 per cent of total export earnings, increased by 3.2 per cent, year-on-year, to US dollars 442 million in March 2016, reflecting growth in exports to the USA and non-traditional markets.

On a cumulative basis, exports earnings during the first three months of 2016 declined by 5.4 per cent, year-on-year, to US dollars 2,728 million reflecting a lower performance in exports of transport equipment and petroleum products. The leading markets for merchandise exports of Sri Lanka during the first three months of 2016 were the USA, UK, India, Germany and Italy accounting for about 54 per cent of the total exports.

Table 1: Earnings from Exports

Category	March	March	Change (%)	Jan-Mar	Jan-Mar	Change (%)
	2015 (US\$ mn)	2016 (US\$ mn)		2015 (US\$ mn)	2016 (US\$ mn)	
1. Industrial exports	845.7	740.4	(12.5)	2,251.5	2,154.4	(4.3)
Textiles and garments	428.2	441.8	3.2	1,258.0	1,369.3	8.9
Rubber products	76.1	71.6	(5.9)	207.8	203.2	(2.2)
Transport equipment	152.8	35.7	(76.6)	165.4	47.0	(71.6)
Food beverages and tobacco	24.8	29.0	17.2	66.9	81.4	21.8
Petroleum products	25.1	27.1	8.2	127.9	74.2	(42.0)
Gems, Diamonds and Jewellery	28.2	19.7	(30.1)	109.5	75.0	(31.5)
Animal fodder	7.5	5.7	(23.5)	20.1	18.2	(9.5)
Other	103.0	109.7	6.5	296.0	286.1	(3.4)
2. Agricultural exports	214.1	200.7	(6.3)	618.9	562.2	(9.2)
Tea	113.4	112.7	(0.6)	335.3	313.1	(6.6)
Coconut	32.2	35.1	9.1	82.1	87.8	6.8
Spices	28.9	18.0	(37.7)	90.8	60.9	(33.0)
Sea Food	15.7	16.5	5.3	43.4	46.5	7.1
Minor agricultural products	17.0	9.3	(45.2)	43.6	28.1	(35.5)
Unmanufactured tobacco	2.1	3.3	55.4	8.6	9.2	7.2
Other	4.8	5.7	18.4	15.0	16.6	10.9
3. Mineral and other	4.9	4.3	(12.0)	14.0	11.4	(18.7)
Total exports	1,064.7	945.4	(11.2)	2,884.4	2,728.0	(5.4)

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 for the ninth consecutive month in March 2016, marginally by 0.9 per cent, year-on-year, to US dollars 1,566 million. This decline was led by the reductions recorded in import expenditure on transport equipment categorised under investment goods, personal motor vehicles categorised under consumer goods and wheat and maize categorised under intermediate goods.

Import expenditure on transport equipment and personal motor vehicles decreased by 61.6 per cent and 39.4 per cent, respectively, year-on-year, reflecting the impact of the policy measures adopted by the government to curtail vehicle imports. Accordingly, importation of motor vehicles, such as motor cars, motor cycles, commercial cabs, buses, lorries and auto-trishaws, declined significantly during the month. Despite a growth recorded in the average import prices, import expenditure on wheat and maize decreased substantially by 97.6 per cent due to non-importation of wheat by Prima Ceylon (Pvt.) Ltd during the month of March 2016. Further, import expenditure on gold, fertiliser, unmanufactured tobacco and rice also declined significantly during the month. However, import expenditure on machinery and equipment, building materials and textile and textile articles increased significantly by 43.2 per cent, 47.4 per cent and 25.7 per cent, respectively, year-on-year, indicating the possible expansion in future economic activities. Meanwhile, reversing the year-on-year declining trend continued from November 2014, expenditure on fuel imports increased by 4.2 per cent in March 2016 mainly due to non-importation of crude oil in March 2015 together with higher expenditure on coal imports which increased by 4.8 per cent, on a year-on-year basis. Further, import expenditure on seafood, medical and pharmaceuticals, home appliances and telecommunication devices also increased during the month.

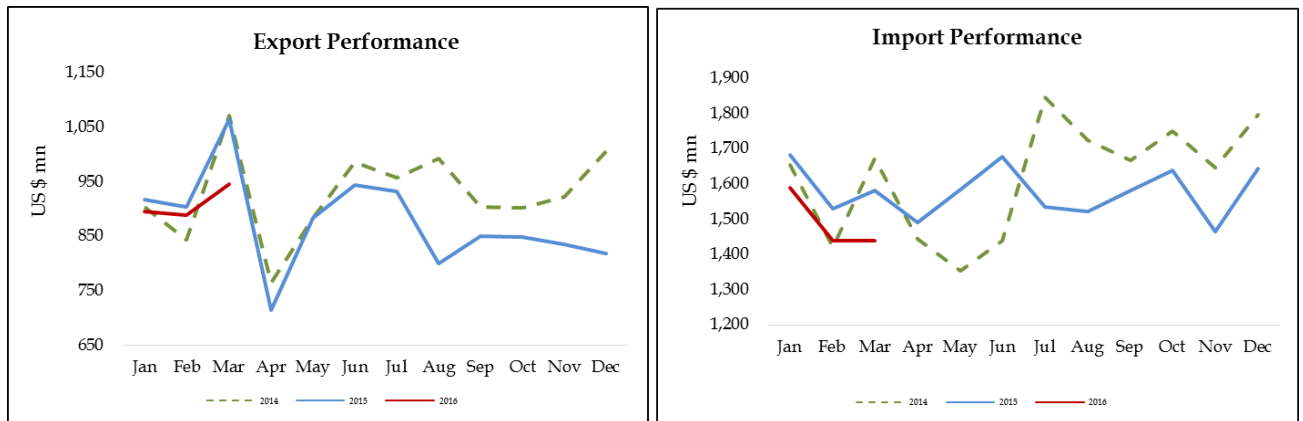
On a cumulative basis, expenditure on imports during the first three months of 2016 decreased by 4.1 per cent to US dollars 4,594 million, mainly driven by the decline recorded in fuel imports. The non-fuel import expenditure during this period increased by 0.6 per cent to US dollars 4,109 million. During the first three months of 2016, main import origins were China, India, Japan, Singapore and UAE, accounting for about 57 per cent of total imports.

Table 2: Expenditure on Imports

Category	March 2015 (US\$ mn)	March 2016 (US\$ mn)	Change (%)	Jan-Mar 2015 (US\$ mn)	Jan-Mar 2016 (US\$ mn)	Change (%)
1. Consumer goods	441.6	420.1	(4.9)	1,191.3	1,109.2	(6.9)
Food and beverages	147.3	158.3	7.4	462.8	399.5	(13.7)
Vegetables	34.8	39.8	14.6	108.1	121.7	12.5
Seafood	15.9	25.5	60.4	44.9	60.7	35.1
Dairy products	21.7	18.8	(13.3)	59.7	56.7	(5.0)
Cereals and milling industry products	9.0	1.9	(79.3)	84.8	5.0	(94.1)
Other food and beverages	66.0	72.3	9.6	165.3	155.4	(6.0)
Non-food consumer goods	294.2	261.8	(11.0)	728.5	709.7	(2.6)
Medical and pharmaceuticals	40.0	47.4	18.5	110.1	131.3	19.2
Vehicles	132.3	80.2	(39.4)	290.5	231.6	(20.3)
Other non- food consumables	121.9	134.2	10.1	327.9	346.8	5.8
2. Intermediate goods	741.0	715.2	(3.5)	2,397.0	2,240.3	(6.5)
Textiles and textile articles	177.0	222.6	25.7	588.1	698.5	18.8
Fuel	155.5	162.1	4.2	709.1	485.7	(31.5)
Diamonds, precious stones and metals	30.7	17.3	(43.6)	56.7	80.8	42.5
Fertilisers	24.8	12.8	(48.2)	54.7	41.1	(25.0)
Wheat and maize	52.5	1.3	(97.6)	76.8	54.5	(29.1)
Other	300.6	299.2	(0.5)	911.4	879.8	(3.5)
3. Investment goods	397.5	430.2	8.2	1,201.7	1,243.5	3.5
Machinery and equipment	172.3	246.7	43.2	586.3	712.4	21.5
Building materials	88.7	130.7	47.4	316.0	371.6	17.6
Transport equipment	136.3	52.3	(61.6)	297.8	157.7	(47.0)
Other	0.3	0.5	64.5	1.7	1.9	13.2
4. Unclassified	0.8	0.5	(37.6)	2.1	1.3	(36.5)
Total imports	1,580.9	1,566.0	(0.9)	4,792.1	4,594.5	(4.1)

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 expanded by 20.2 per cent, on a year-on-year basis, in March 2016 amounting to US dollars 621 million compared to US dollars 516 million in March 2015. However, cumulative trade deficit during the first three months of 2016 contracted by 2.2 per cent to US dollars 1,867 million from US dollars 1,908 million recorded during the same period of 2015.

Earnings from Tourism

Tourist arrivals continued its growth momentum recording a growth of 11.6 per cent, year-on year, in April 2016, with 136,367 tourists arriving during the month. Accordingly, the cumulative tourist arrivals in the first four months in 2016 increased by 20.0 per cent to 721,185 compared to the corresponding period of 2015. The top five sources of tourist arrivals in April 2016 were India, China, UK, Germany and France, accounting for 53.1 per cent of the total tourist arrivals during the month. The cumulative earnings from tourism¹ increased to US dollars 1,195.3 million during the first four months of 2016 compared to US dollars 996.2 million recorded during the same period in 2015.

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

Workers' remittances increased by 4.9 per cent, year-on-year, to US dollars 675.7 million in March 2016 from US dollars 644.3 million recorded in March 2015. The cumulative inflow from workers' remittances increased by 6.8 per cent to US dollars 1,793.4 million during the first quarter of 2016 in comparison to the corresponding period of 2015.

Financial Flows

Total FDI inflows with foreign loans to BOI companies in the first quarter of 2016 amounted to US dollars 164.5 million compared to US dollars 346.4 million in the corresponding period of 2015. Meanwhile, foreign investments in the Colombo Stock Exchange (CSE) up to the end March 2016 recorded a net outflow of US dollars 12.5 million, including net outflows to the secondary market amounting to US dollars 13.8 million and inflows to the primary market amounting to US dollars 1.3 million. Foreign investments in the government securities market recorded a net outflow of US dollars 572.3 million during the first quarter of 2016 compared to a net outflow of US dollars 15.4 million during the corresponding period of 2015. During the first quarter of 2016, long term loans to the Government recorded a net outflow of US dollars 116.1 million compared to a net inflow of US dollars 4.5 million during the first quarter of 2015.

The US dollars 1,100 million swap arrangement with the Reserve Bank of India (RBI) was settled on 8 March 2016. However, Sri Lanka received US dollars 400 million under the SAARCFINANCE currency swap agreement on 8 March 2016 and received US dollars 700 million from another currency swap agreement with the RBI by end March 2016 which was subsequently settled in June 2016.

Overall Balance of Payments Position

During the first quarter of 2016, the overall BOP is estimated to have recorded a deficit of US dollars 720.2 million, compared to a deficit of US dollars 1,016.8 million recorded during the corresponding period of 2015.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end March 2016 amounted to US dollars 6.2 billion, equivalent to 4.0 months of imports while total foreign assets amounted to US dollars 8.2 billion, equivalent to 5.3 months of imports.

The rupee recorded a modest depreciation of 0.8 per cent against the US dollar during the period from end 2015 through 30 June 2016. Furthermore, reflecting the cross currency movements, the rupee also depreciated against the euro by 2.5 per cent, the Japanese yen by 15.4 per cent, the Canadian dollar by 7.4 per cent and the Australian dollar by 2.8 per cent during this period while appreciating against the pound sterling by 9.6 per cent and the Indian rupee by 0.7 per cent.

Table 3: Summary of External Sector Performance (a)

Category	March 2015 US\$ mn	March 2016 US\$ mn	Change (%)	Jan- Mar 2015 US\$ mn	Jan-Mar 2016 US\$ mn	Change (%)
Exports	1,064.7	945.4	-11.2	2,884.4	2,728.0	-5.4
Imports	1,580.9	1,566.0	-0.9	4,792.1	4,594.5	-4.1
Trade Balance (surplus+)/deficit(-)	-516.2	-620.7	20.2	-1,907.7	-1,866.5	-2.2
Earnings from Tourism	260.3(b)	319.6	22.8	793.6(b)	969.3	22.1
Workers' Remittances	644.3	675.7(b)	4.9	1,679.4	1,793.4(b)	6.8
Inflows to the CSE (Net) (c)	10.5	-2.4	-122.8	38.6	-12.5	-132.4
Inflows to the Government (d)	246.3	112.1	-54.5	612.1	253.6	-58.6
of which,						
Treasury Bills and Bonds	158.3	20.4	-87.1	348.7	43.3	-87.6
International Sovereign Bonds	-	-	-	-	-	-
Long term Loans	80.0	91.1	13.9	238.2	205.0	-14.0
Foreign Direct Investment (e)	-	-	-	346.4	164.5	-52.5

Sources: Board of Investment of Sri Lanka
Sri Lanka Customs
Central Bank of Sri Lanka
Sri Lanka Tourism Development Authority
Colombo Stock Exchange

- (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 from the investments in Treasury bills and Treasury bonds by foreign investors, International Sovereign Bonds and long-term loans of the government.
(e) Data available for the first three months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the Board of Investment of Sri Lanka.