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CENTRAL BANK OF SRI LANKA

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Press Release

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External Sector Performance-June 2016

Overview

Sri Lanka's external sector performance remained moderate in June 2016 with a widening trade deficit and relatively low growth in workers' remittances and tourist earnings. The trade deficit which showed gradual improvements in the first four months of the year deteriorated in May and June with weak performance in both exports and imports. Earnings from tourism recorded a low growth in June compared to previous months of the year while growth in workers' remittances also moderated. However, inflows to the financial account elevated with the receipts of the first tranche of the IMF Extended Fund Facility (IMF-EFF) and a syndicated loan facility. As a result of these inflows to the financial account and developments in the global economy with further rate hikes by the United States Federal Reserve still to materialise, foreign investments in the government securities market rebounded. This resulted in a net inflow of foreign investments in Government securities in June 2016 compared to continuous outflows experienced during the first quarter of the year. These developments, together with the increased investor confidence consequent to the IMF-EFF, are expected to bolster the balance of payments position and improve Sri Lanka's reserve levels in the short to medium term.

Export Performance

Earnings from exports declined for the 16th consecutive month in June 2016 on a year-on-year basis, mainly due to the substantial reduction in price levels of export commodities in the international market. Accordingly, earnings from exports declined by 5.0 per cent, year-on-year, to US dollars 897 million in June 2016 from US dollars 944 million recorded in June 2015, led by lower export performance recorded in petroleum products, transport equipment and spices. Export earnings from petroleum products, which mainly comprise of bunker and aviation fuel, decreased considerably by 53.2 per cent, year-on-year, in June 2016 owing to the combined effect of lower bunkering quantities and lower average bunkering prices. Further, earnings from transport equipment exports dropped substantially by 74.7 per cent, year-on-year, mainly due to the significantly higher level of exports recorded in June 2015 owing to export of two cruise ships. Even though export earnings from spices in June 2016 recorded the highest value so far in 2016, it declined by 20.0 per cent, year-on-year, reflecting poor performance in pepper and cloves exports despite the higher exports of other spices, especially cinnamon. In addition, drop in export earnings from gems, diamonds and jewellery, minor agricultural exports and rubber products also contributed significantly to the overall decline in export earnings. However, earnings from leather, travel goods and footwear grew substantially by 96.9 per cent, year-on-year in June 2016, reflecting higher export performance in all sub categories. Further, earnings from textiles and garments exports, which account for around 48 per cent of total export earnings, grew by 1.4 per cent, year-on-year, to US dollars 430 million in June 2016, as a result of higher garment exports to USA and non-traditional markets such as Canada, China and UAE. In addition, export earnings from base metals and articles, and food beverages and tobacco contributed towards increasing the total export earnings during the month.

On a cumulative basis, earnings from exports during the first half of 2016 contracted by 5.8 per cent, year-on-year, to US dollars 5,108 million mainly due to reduction in export earnings from transport equipment, petroleum products, tea and spices. The leading markets for merchandise exports of Sri Lanka during the first half of 2016

were the USA, UK, India, Germany and Italy accounting for about 53 per cent of the total exports.

Table 1: Earnings from Exports

Category	June 2015 (US\$ mn)	June 2016 (US\$ mn)	Change (%)	Jan-June 2015 (US\$ mn)	Jan-June 2016 (US\$ mn)	Change (%)
1. Industrial exports	713.8	679.2	(4.9)	4,154.4	3,981.9	(4.2)
Textiles and garments	424.3	430.2	1.4	2,405.4	2,514.7	4.5
Rubber products	65.5	63.3	(3.4)	398.0	372.0	(6.5)
Food beverages and tobacco	22.8	25.0	9.5	133.3	151.4	13.6
Gems, Diamonds and Jewellery	25.3	21.9	(13.6)	181.7	148.4	(18.4)
Petroleum products	48.3	23.0	(52.3)	224.1	132.2	(41.0)
Leather, travel goods and footwear	9.8	19.4	96.9	71.7	81.6	13.7
Transport equipment	30.0	7.6	(74.7)	208.0	67.1	(67.7)
Base metals and articles	5.0	7.6	53.1	30.8	36.8	19.7
Other	82.7	81.3	(1.7)	501.4	477.7	(4.7)
2. Agricultural exports	226.7	214.1	(5.6)	1,244.7	1,104.7	(11.3)
Tea	121.9	121.9	(0.1)	682.9	618.4	(9.5)
Spices	39.9	32.0	(20.0)	170.8	125.3	(26.6)
Sea Food	13.5	12.9	(3.9)	85.8	83.5	(2.7)
Minor agricultural products	12.7	10.0	(21.3)	84.2	56.9	(32.5)
Unmanufactured tobacco	2.3	1.9	(16.1)	16.5	16.3	(1.3)
Vegetables	2.2	2.1	(3.0)	16.1	13.2	(18.0)
Other	34.2	33.3	(2.6)	188.4	191.1	1.5
3. Mineral and other	3.6	3.5	(1.6)	25.3	21.2	(16.3)
Total exports	944.1	896.8	(5.0)	5,424.4	5,107.7	(5.8)

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 marginally by 0.2 per cent, year-on-year, to US dollars 1,676 million in June 2016. However, this is the highest monthly import value

recorded so far in this year. Import expenditure on vehicles, wheat and fertilizer declined significantly during the month. Reflecting the impact of the policy measures taken by the government to curtail vehicle imports, personal motor vehicle imports, categorised under consumer goods, declined significantly by 52.0 per cent, while transport equipment, categorised under investment goods, also declined by 38.0 per cent, year-on-year, in June 2016. Imports of motor cars, auto-trishaws and commercial cabs declined significantly during the month. Meantime, import expenditure on wheat declined significantly by 88.9 per cent, year on year, in June 2016 reflecting substantial reductions in import volumes and prices. Also, import expenditure on fertiliser declined by 77.1 per cent reflecting declines in all sub categories. Further, unmanufactured tobacco, printed materials and stationary, and clothing and accessories contributed significantly towards reducing the overall import expenditure. However, import expenditure on machinery and equipment and building materials, which comprised around 22 per cent of overall imports, increased noticeably by 16.6 per cent and 27.0 per cent, respectively on a year-on-year basis, in June 2016 due to higher expenditure on almost all sub categories. In June 2016, import expenditure on gold imports increased substantially as a result of high gold imports during the month together with non-importation of gold during the corresponding month of the previous year. Further, expenditure on base metals imports increased by 64.5 per cent, year-on-year, in June 2016 mainly due to higher imports recorded in iron and steel. Also, expenditure on fuel imports grew by 5.9 per cent, year-on-year, mainly due to the considerable increase recorded in import volumes of all sub categories of fuel, despite the decline in the fuel prices.

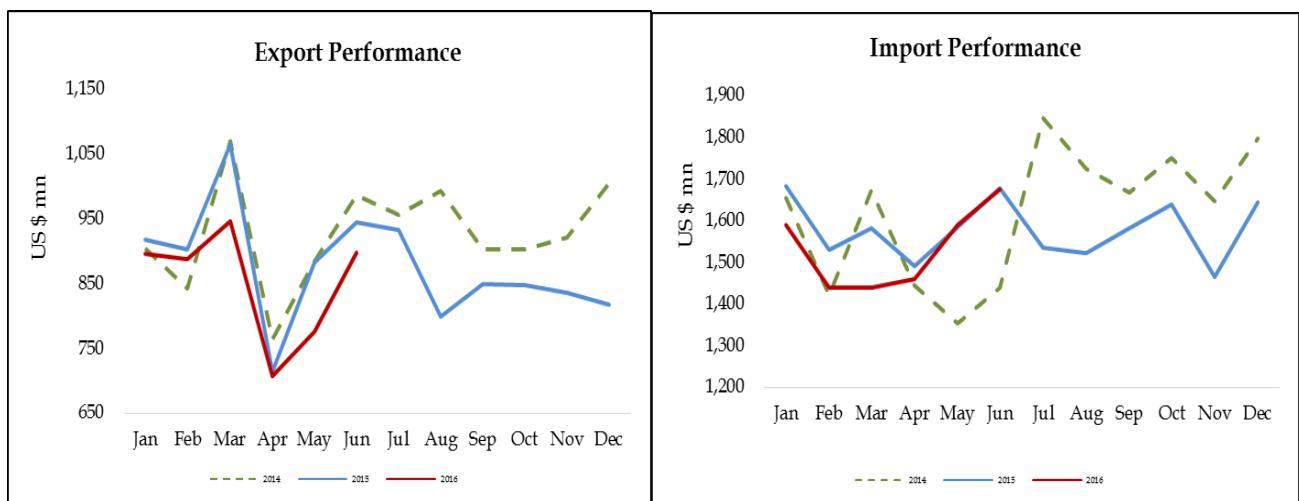
On a cumulative basis, expenditure on imports during the first six months of 2016 contracted by 2.4 per cent to US dollars 9,321 million, mainly due to the declines recorded in fuel, transport equipment, personal motor vehicles and rice imports. China, India, Singapore, Japan and UAE were the main import origins during the first six months of 2016, which account for about 56 per cent of total imports.

Table 2: Expenditure on Imports

Category	June	June	Change (%)	Jan-June	Jan-June	Change (%)
	2015 (US\$ mn)	2016 (US\$ mn)		2015 (US\$ mn)	2016 (US\$ mn)	
1. Consumer goods	391.3	354.1	(9.5)	2,307.4	2,107.7	(8.7)
Food and beverages	126.8	137.4	8.3	870.6	775.7	(10.9)
Sugar and confectionery	17.9	25.0	39.5	141.1	133.7	(5.3)
Dairy products	25.7	22.4	(13.1)	122.4	119.4	(2.4)
Beverages	5.7	9.2	61.7	37.0	42.5	14.9
Cereals and milling industry products	4.7	1.7	(63.0)	133.4	11.0	(91.8)
Other food and beverages	72.8	79.1	8.6	436.8	469.1	7.4
Non-food consumer goods	264.5	216.7	(18.1)	1,436.8	1,332.0	(7.3)
Vehicles	118.5	56.9	(52.0)	596.5	419.3	(29.7)
Medical and pharmaceuticals	40.4	53.0	31.3	228.5	264.3	15.6
Other non- food consumables	105.6	106.8	1.2	611.8	648.4	6.0
2. Intermediate goods	909.7	909.7	0.0	4,951.9	4,780.4	(3.5)
Fuel	287.3	304.2	5.9	1,473.3	1,177.8	(20.1)
Plastic and articles thereof	57.7	49.0	(14.9)	297.8	296.7	(0.4)
Diamonds and precious stones and metals	16.2	44.1	173.1	117.3	213.0	81.5
Base metals	34.3	56.5	64.5	244.6	190.2	(22.2)
Wheat and maize	53.5	5.9	(88.9)	174.9	133.1	(23.9)
Fertilisers	28.2	6.5	(77.1)	139.8	74.9	(46.4)
Other	432.5	443.5	2.5	2,504.4	2,694.9	7.6
3. Investment goods	377.1	410.1	8.7	2,277.8	2,426.7	6.5
Machinery and equipment	192.6	224.6	16.6	1,142.7	1,371.9	20.1
Building materials	108.5	137.9	27.0	617.5	760.7	23.2
Transport equipment	75.6	46.8	(38.0)	515.1	290.9	(43.5)
Other investment goods	0.3	0.7	105.6	2.5	3.3	31.0
4. Unclassified	0.6	1.9	210.2	9.6	6.2	(35.4)
Total imports	1,678.7	1,675.8	(0.2)	9,546.7	9,321.0	(2.4)

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 to US dollars 779 million in June 2016 from US dollars 735 million in the corresponding month of the previous year due to the steeper reduction in exports in comparison to the decline in imports. The cumulative trade deficit during the first half of 2016 also increased to US dollars 4,213 million from US dollars 4,122 million recorded during the same period of 2015.

Earnings from Tourism

With the end of the peak season of arrivals, earnings from tourism recorded a moderate growth of 2.2 per cent in June 2016. Cumulative earnings from tourism¹ increased to US dollars 1,598.2 million during the first six months of 2016 compared to US dollars 1,375.7 million recorded during the same period in 2015. The tourist arrivals for the month of June amounted to 118,038. There was a notable decline in tourist arrivals from Russia whereas growth of tourist arrivals from the Middle East remained moderate, with the economies of both regions still being affected by stagnating oil prices. Cumulative tourist arrivals during the first six months of 2016

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.

increased by 16.2 per cent to 964,267 compared to the corresponding period of 2015 with top five sources of tourist arrivals, up to June 2016, being India, China, UK, Germany and France.

Workers' Remittances

Receipts from workers' remittances also moderated with a growth of 2.4 per cent in June 2016 compared to the corresponding month in 2015. This resulted in a cumulative growth of 5.3 per cent in the first half of the year compared to the first half of 2015. This lower than expected growth in workers' remittances can be mainly attributed to prevailing economic stagnation in Middle Eastern countries and lower migration under the unskilled categories. Accordingly, cumulative inflows from workers' remittances in the first six months of 2016 amounted to US dollars 3,613.1 million.

Financial Flows

The financial account was bolstered by the receipt of the first tranche of the IMF-EFF of US dollars 168 million received in June 2016. This was the first tranche received under the IMF-EFF programme. The financial account was also strengthened by the receipt of the syndicated loan facility of US dollars 300 million to the Government during the month. Consequently, total foreign loan net inflows to the Government during the first six months in 2016 amounted to US dollars 353.9 million compared to US dollars 147.2 million in the first six months of 2015. Foreign investments in government securities also witnessed a resurgence with a net inflow of US dollars 71.1 million in June 2016. Foreign investment in government securities which recorded a significant net outflow during the first quarter of the year improved gradually in the next quarter. The cumulative net outflow of foreign investment in government securities amounted to US dollars 371.8 million during the first half of 2016. Further, in the first half of 2016, foreign investments in the Colombo Stock Exchange (CSE) recorded a net outflow of US dollars 40.9 million, which include a net outflow of US dollars 42.2 million from the secondary market and an inflow of US dollars 1.3 million to the primary market during the period.

Overall Balance of Payments (BOP) Position

During the first six months of 2016, the overall BOP is estimated to have recorded a deficit of US dollars 1,186 million up to June in comparison to a deficit of US dollars 1,142 million recorded up to May 2016.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end June 2016 amounted to US dollars 5.3 billion, equivalent to 3.4 months of imports, while total foreign assets amounted to US dollars 7.3 billion, equivalent to 4.7 months of imports.

The rupee recorded a modest depreciation of 1.0 per cent against the US dollar during the period from end 2015 to 2nd September 2016. Furthermore, reflecting the cross currency movements, the rupee also depreciated against the euro by 3.4 per cent, the Japanese yen by 15.0 per cent, the Canadian dollar by 6.5 per cent, the Australian dollar by 4.3 per cent and the Indian rupee by 0.5 per cent during this period while appreciating against the pound sterling by 10.5 per cent.

Table 3: Summary of External Sector Performance (a)

Category	June 2015 US\$ mn	June 2016 US\$ mn	Change (%)	Jan- Jun 2015 US\$ mn	Jan-Jun 2016 US\$ mn	Change (%)
Exports	944.1	896.8	-5.0	5,424.4	5,107.7	-5.8
Imports	1,678.7	1,675.8	-0.2	9,546.7	9,321.0	-2.4
Trade Balance (surplus(+)/ deficit(-))	-734.6	-779.0	6.0	-4,122.3	-4,213.3	2.2
Earnings from Tourism	191.4(b)	195.6	2.2	1,375.7(b)	1,598.2	16.2
Workers' Remittances	629.6	644.5	2.4	3,432.7	3,613.1(b)	5.3
Inflows to the CSE (Net) (c)	-13.3	-3.7	-72.5	44.8	-40.9	-191.3
Inflows to the Government (d)	802.5	587.5	-26.8	1,778.8	1,402.9	-21.1
of which,						
Treasury Bills and Bonds	21.3	193.6	807.5	547.4	601.1	9.8
International Sovereign Bonds	650.0	-	-	650.0	-	-
Long term Loans	125.1	392.8	214.0	531.1	789.9	48.7
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 and includes direct investments to the CSE.