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Press Release

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External Sector Performance–July 2016

Overview

The external sector performance improved in July 2016 with a reduction of the trade deficit, increased tourist earnings and higher inflows to the financial account. The trade deficit contracted in July, due to the reduction in imports which outweighed the reduction in exports. Tourist earnings increased while workers' remittances declined during the month compared to the corresponding period of the previous year. Inflows to the financial account strengthened with the proceeds of US dollars 1,500 million from the issuance of the 10th international sovereign bond, US dollars 300 million from the Syndicated Loan facility and net inflows recorded in the government securities market and the Colombo Stock Exchange (CSE), easing the pressure on the Balance of Payments.

Export Performance

Continuing the year-on-year declining trend, which began from March 2015, earnings from exports declined by 4.4 per cent, year-on-year, to US dollars 891 million in July 2016 from US dollars 932 million in July 2015. The subdued performance in agricultural and industrial exports, owing to lower international

commodity prices and lower domestic supply, mainly contributed to this decline. Export earnings from tea dropped by 14.8 per cent, year-on-year, to US dollars 108 million in July 2016, due to lower demand, particularly from Russia and Middle-Eastern countries, although tea exports to Iran increased in comparison to July 2015. Further, earnings from export of spices declined significantly by 31.8 per cent, year-on-year, mainly due to the poor performance of pepper as a result of low domestic supply, although cinnamon and nutmeg and mace exports showed a considerable growth, year-on-year, in July 2016. In addition, export earnings from petroleum products decreased by 24.7 per cent, year-on-year, during the month owing to the combined effect of lower bunkering quantities and average bunkering prices. Earnings from sea food exports declined, year-on-year, both in terms of export value and volume in July 2016. However, earnings from sea food exports to the EU grew by 19.9 per cent, year-on-year, mainly as a result of the removal of the fish ban imposed by the EU on Sri Lanka, with effect from end June 2016. In contrast, earnings from textiles and garments exports, which account for around 48 per cent of total export earnings, grew by 3.0 per cent, year-on-year, to US dollars 426 million, due to higher garment exports to the EU and non-traditional markets such as Canada, China, Australia and the UAE. Further, reflecting higher performance in footwear and travel goods sub categories, export earnings from leather, travel goods and footwear grew substantially in July 2016 while earnings from machinery and mechanical appliances, base metals and articles and vegetables exports also increased when compared to the corresponding month of 2015.

On a cumulative basis, earnings from exports during the first seven months of 2016 contracted by 5.6 per cent, year-on-year, to US dollars 5,999 million mainly due to reductions in export earnings from transport equipment, petroleum products, tea and spices. The leading markets for merchandise exports of Sri Lanka during the first seven months of 2016 were the USA, UK, Germany, India and Italy accounting for about 53 per cent of total exports.

Table 1: Earnings from Exports

Category	July 2015 (US\$ mn)	July 2016 (US\$ mn)	Change (%)	Jan- July 2015 (US\$ mn)	Jan- July 2016 (US\$ mn)	Change (%)
1. Industrial exports	682.4	678.5	(0.6)	4,836.7	4,660.4	(3.6)
Textiles and garments	413.1	425.6	3.0	2,818.5	2,940.2	4.3
Rubber products	71.8	68.2	(5.1)	469.8	440.2	(6.3)
Petroleum products	40.1	30.1	(24.7)	264.1	162.4	(38.5)
Machinery and mechanical appliances	27.1	29.1	7.4	177.9	171.6	(3.5)
Leather, travel goods and footwear	12.6	19.6	55.5	84.3	101.2	20.0
Gems, Diamonds and Jewellery	23.7	18.3	(23.0)	205.4	166.6	(18.9)
Base metals and articles	4.4	6.1	39.6	35.1	42.9	22.2
Animal fodder	7.4	4.8	(34.6)	45.9	37.9	(17.4)
Other	82.2	76.7	(6.6)	735.6	597.3	(18.8)
2. Agricultural exports	245.3	207.9	(15.2)	1,490.1	1,312.6	(11.9)
Tea	126.5	107.8	(14.8)	809.4	726.1	(10.3)
Spices	48.5	33.1	(31.8)	219.2	158.4	(27.8)
Coconut	34.3	31.8	(7.3)	208.5	206.0	(1.2)
Minor agricultural products	14.4	14.9	3.9	98.6	71.8	(27.2)
Sea Food	15.1	14.2	(5.8)	100.9	97.7	(3.2)
Vegetables	2.0	3.1	58.2	18.1	16.3	(9.7)
Other	4.6	3.0	(34.1)	35.3	36.3	2.8
3. Mineral and other	4.4	4.7	7.9	29.7	25.9	(12.7)
Total exports	932.1	891.2	(4.4)	6,356.5	5,998.9	(5.6)

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 contracted by 6.6 per cent, year-on-year, to US dollars 1,433 million in July 2016 compared to US dollars 1,534 million in July 2015. A significant decline in expenditure on vehicle imports, followed by fuel and wheat imports, contributed largely to this reduction. Reflecting the impact of policy measures adopted by the government to curtail vehicle imports, import expenditure on personal motor vehicles, categorised under consumer goods, and transport equipment, categorised under investment goods, declined significantly by 63.7 per

cent and 29.4 per cent, respectively in July 2016, year-on-year. Importation of motor cars, hybrid electric vehicles, motor cycles, buses, agricultural tractors and auto-trishaws declined significantly during the month. Import expenditure on fuel declined by 18.6 per cent, year-on-year, to US dollars 142 million during the month mainly due to the drop in average import prices of crude oil and coal together with the significant reduction in import volumes of refined petroleum products. In line with the drop in oil prices in the international market, the average import price of crude oil declined to US dollars 46.10 per barrel in July 2016 from US dollars 50.95 per barrel in the previous month and US dollars 60.49 per barrel in July 2015. Further, import expenditure on wheat declined significantly by 70.5 per cent, year-on-year, in July 2016 mainly due to reductions registered in import volumes and prices of wheat. In addition, chemical products, base metals, agricultural inputs, vegetables, dairy products and rice contributed significantly towards reducing the overall import expenditure during the month. However, import expenditure on machinery and equipment, and building materials increased noticeably by 25.4 per cent and 14.4 per cent, respectively on a year-on-year basis in July 2016, reflecting increases in almost all sub categories. Further, expenditure on mineral product imports increased significantly by 125.4 per cent, year-on-year, in July 2016 mainly due to higher imports recorded in cement clinkers. In addition, gold imports increased noticeably during the month due to the high quantum of gold imported and the non-importation of gold during the corresponding month of the previous year. Meanwhile, import expenditure on medical and pharmaceuticals, home appliances, cosmetics and toiletries, and clothing and accessories, increased in July 2016.

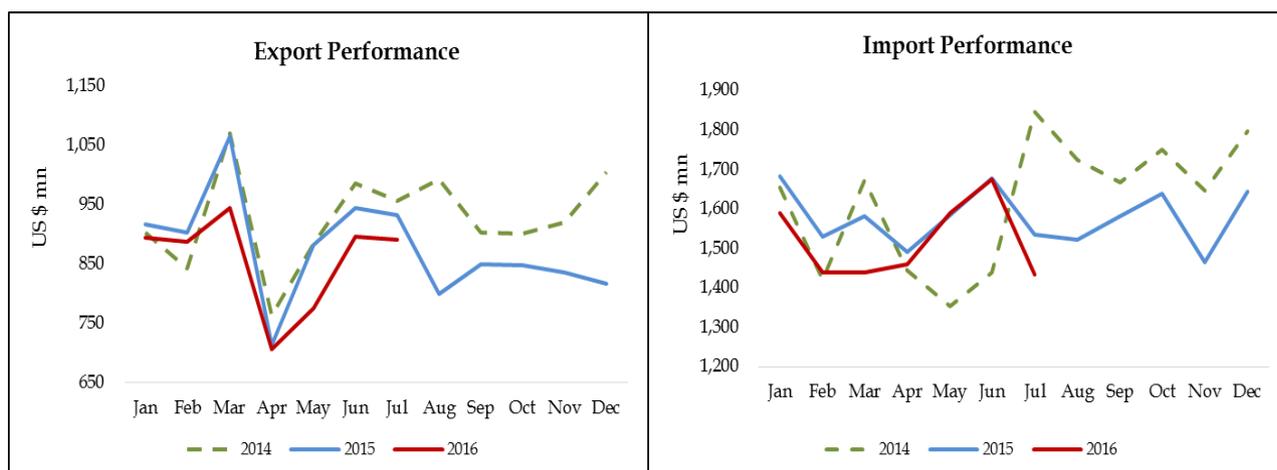
On a cumulative basis, expenditure on imports during the first seven months of 2016 contracted by 2.9 per cent to US dollars 10,754 million, mainly due to reductions recorded in fuel, vehicle and rice imports. During the first seven months of 2016, main import origins were China, India, Singapore, Japan and the UAE accounting for about 57 per cent of total imports.

Table 2: Expenditure on Imports

Category	July 2015 (US\$ mn)	July 2016 (US\$ mn)	Change (%)	Jan-July 2015 (US\$ mn)	Jan-July 2016 (US\$ mn)	Change (%)
1. Consumer goods	414.7	323.4	(22.0)	2,722.1	2,431.1	(10.7)
Food and beverages	132.7	120.8	(9.0)	1,003.3	896.5	(10.6)
Vegetables	34.0	29.7	(12.6)	237.7	228.1	(4.0)
Dairy products	23.4	19.5	(16.5)	145.8	139.0	(4.7)
Spices	8.8	9.8	11.6	64.4	76.7	19.1
Oils and fats	3.5	3.6	2.2	21.2	20.8	(1.8)
Other food and beverages	63.0	58.2	(7.6)	534.3	431.9	(19.2)
Non-food consumer goods	282.0	202.6	(28.2)	1,718.8	1,534.6	(10.7)
Vehicles	147.9	53.6	(63.7)	744.4	472.9	(36.5)
Medical and pharmaceuticals	39.3	45.4	15.4	267.9	309.7	15.6
Other non- food consumables	94.8	103.6	9.3	706.6	752.0	6.4
2. Intermediate goods	752.0	704.7	(6.3)	5,703.9	5,485.1	(3.8)
Fuel	174.8	142.3	(18.6)	1,648.2	1,320.2	(19.9)
Chemical products	79.0	65.7	(16.8)	501.8	501.6	(0.0)
Mineral products	20.4	46.0	125.4	126.0	128.2	1.7
Diamonds and precious stones and metals	10.1	32.5	222.9	127.4	245.5	92.7
Base metals	33.3	25.0	(24.9)	277.9	215.2	(22.6)
Wheat and maize	25.1	8.3	(66.9)	200.0	141.4	(29.3)
Other	409.3	384.8	(6.0)	2,822.7	2,933.1	3.9
3. Investment goods	365.8	403.1	10.2	2,643.6	2,829.9	7.0
Machinery and equipment	179.1	224.7	25.4	1,321.8	1,596.5	20.8
Building materials	105.7	120.9	14.4	723.2	881.6	21.9
Transport equipment	80.8	57.0	(29.4)	595.8	347.9	(41.6)
Other investment Goods	0.2	0.6	153.6	2.7	3.8	40.9
4. Unclassified	1.4	1.6	11.4	11.0	7.7	(29.5)
Total imports	1,533.9	1,432.8	(6.6)	11,080.6	10,753.8	(2.9)

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 10.0 per cent, year-on-year, to US dollars 542 million in July 2016, owing to the sharper reduction in imports relative to the decline in exports. However, the cumulative trade deficit increased to US dollars 4,755 million in the first seven months of 2016 from US dollars 4,724 million in the corresponding period of 2015.

Earnings from Tourism

Tourist arrivals at 209,351 recorded a growth of 19.1 per cent, year-on-year, in July 2016. Accordingly, tourist arrivals during the first seven months of 2016 increased by 16.7 per cent to 1,173,618 in comparison to the corresponding period of 2015. The top five sources of tourist arrivals in July 2016 were China, India, UK, Germany and France, accounting for 49.8 per cent of the total during the month. Cumulative earnings from tourism¹ increased to US dollars 1,945.2 million during the first seven months of 2016 compared to US dollars 1,667.1 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 declined by 4.4 per cent, year-on-year, to US dollars 572.8 million in July 2016 from US dollars 599.3 million in July 2015. The decline in workers' remittances can be mainly attributed to the prevailing economic stagnation in Middle Eastern countries and lower migration under the unskilled categories. However, the cumulative inflow from workers' remittances increased by 3.8 per cent to US dollars 4,185.9 million during the first seven months of 2016 in comparison to the corresponding period of 2015.

Financial Flows

Sri Lanka issued its 10th and first dual tranche international sovereign bond of US dollars 500 million (with a maturity period of 5.5 years) and US dollars 1.0 billion (with a maturity period of 10 years). Orders totalled US dollars 2.5 billion for the 5.5-year tranche and US dollars 3.0 billion for the 10-year tranche. Both the 5.5-year and 10-year tranches were priced well below the initial price guidance of 6.125 per cent and 7.125 per cent, with a coupon of 5.750 per cent and 6.825 per cent at par, respectively.

Foreign investments at the CSE recorded a net inflow of US dollars 10.1 million in July 2016. However, the cumulative foreign investments in the CSE up to end July 2016 recorded a net outflow of US dollars 30.8 million, including net outflows to the secondary market amounting to US dollars 32.2 million and inflows to the primary market amounting to US dollars 1.4 million. Continuing the trend observed from the latter part of April 2016, the government securities market recorded a net inflow of US dollars 238.5 million in July 2016. However, cumulative foreign investments to the government securities market during the first seven months of 2016 recorded a net outflow of US dollars 133.3 million compared to a net outflow of US dollars 424.7 million during the corresponding period of 2015. The financial account further strengthened with the proceeds from the Syndicated Loan facility amounting to US dollars 300 million. During the first seven months of 2016, long term loans to the Government recorded a net outflow of US dollars 22.0 million compared to a net inflow of US dollars 169.9 million during the first seven months of 2015.

Overall Balance of Payments (BOP) Position

During the first seven months of 2016, the overall BOP is estimated to have recorded a surplus of US dollars 356.0 million, compared to a deficit of US dollars 1,229.6 million recorded during the corresponding period of 2015.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves increased to US dollars 6.5 billion by end July 2016 with the proceeds from the dual-tranche international sovereign bond issuance and the Syndicated Loan facility. The gross official reserves were equivalent to 4.2 months of imports, while total foreign assets at US dollars 8.9 billion were equivalent to 5.7 months of imports.

The rupee recorded a depreciation of 1.9 per cent against the US dollar during the period from end 2015 to 14 October 2016. Reflecting cross currency movements, the rupee also depreciated against the euro by 3.0 per cent, the Japanese yen by 15.5 per cent, the Canadian dollar by 6.7 per cent, the Australian dollar by 5.8 per cent and the Indian rupee by 1.4 per cent during this period while appreciating against the pound sterling by 18.8 per cent.

Table 3: Summary of External Sector Performance (a)

Category	July 2015 US\$ mn	July 2016 US\$ mn	Change (%)	Jan- Jul 2015 US\$ mn	Jan-Jul 2016 US\$ mn	Change (%)
Exports	932.1	891.2	-4.4	6,356.5	5,998.9	-5.6
Imports	1,533.9	1,432.8	-6.6	11,080.6	10,753.8	-2.9
Trade Balance (surplus+)/ deficit(-))	-601.8	-541.6	-10.0	-4,724.1	-4,754.9	0.7
Earnings from Tourism	291.4(b)	347.0	19.1	1,667.1(b)	1,945.2	16.7
Workers' Remittances	599.3	572.8	-4.4	4,032.0	4,185.9(b)	3.8
Inflows to the CSE (Net) (c)	-4.8	10.1	309.0	40.0	-30.8	-177.0
Inflows to the Government (d)	191.8	2,167.2	1,030.0	1,970.6	3,286.3	66.8
of which,						
Treasury Bills and Bonds	83.8	308.4	267.9	631.3	909.5	44.1
International Sovereign Bonds	-	1,500.0	-	650.0	1,500.0	130.8
Syndicated Loan	-	300.0	-	-	300.0	-
Long term Loans	98.8	57.7	-41.6	629.9	563.3	-10.6
Foreign Direct Investments (e)	-	-	-	533.8	335.9	-37.1

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, Syndicated Loans and long-term loans of the government.
(e) Data available for the first six 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.