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CENTRAL BANK OF SRI LANKA

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# **Press Release**

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## **External Sector Performance - August 2016**

### **Overview**

The external sector recorded a modest performance during August 2016 amidst the widening of the trade deficit while inflows from tourism and workers' remittances grew at a healthy rate. Although exports recorded a considerable growth during August 2016, imports also grew resulting in a widening of the trade deficit. However, earnings from tourism and workers' remittances grew, cushioning the impact of the trade deficit. Meanwhile, inflows to the financial account were supported by foreign investments to the government securities market and the Colombo Stock Exchange (CSE) and long-term loan inflows to the government in August 2016.

### **Export Performance**

Exports in August 2016, valued at US dollars 866 million, were 8.4 per cent higher than export earnings in August 2015, reflecting an increase for the first time after February 2015. This increase was partly a result of the low level of export income recorded in August 2015.

Tea and rubber products contributed mainly to the year-on-year increase in export income. Earnings from tea exports increased due to an increase in the quantity of black tea exported. However, the average export price of tea in August 2016 was same as in August 2015 (US dollars 4.33 per kilogram). Improved performance in all sub categories of rubber product exports, particularly surgical and other gloves and rubber tires, contributed for the increase in rubber product exports. In addition, exports of iron and steel articles, transport equipment, food, beverages and tobacco (particularly vegetables, fruit and nut preparations, and manufactured tobacco), and spices (particularly cinnamon, nutmeg and mace) also contributed significantly to the growth in exports. However, income from export of garments declined slightly by 2.1 per cent during August 2016, year-on-year. Exports of garments to the EU increased by 9.0 per cent in August 2016 compared to the same period in 2015, whereas garment exports to other destinations declined.

Despite the year-on-year increase in the month of August, cumulative export earnings during the first eight months of 2016 declined to US dollars 6,865 million which is 4.1 per cent lower than the export earnings from the same period in 2015. Income from garment exports increased by 3.5 per cent during the first eight months of 2016, when compared to the corresponding period in 2015. However, this increase in export earnings was offset by a decline in export incomes from transport equipment, petroleum products (particularly bunker and aviation fuel), tea, spices, (particularly pepper and cloves), gems and diamonds, leading to the aforementioned total reduction in export incomes. The main merchandise export destinations were USA, UK, India, Germany and Italy, which received about 53.0 per cent of Sri Lanka's exports.

**Table 1: Earnings from exports**

Category	August 2015 (US\$ mn)	August 2016 (US\$ mn)	Change (%)	Jan-Aug 2015 (US\$ mn)	Jan-Aug 2016 (US\$ mn)	Change (%)
<b>1. Industrial exports</b>	<b>618.2</b>	<b>654.3</b>	<b>5.8</b>	<b>5,455.0</b>	<b>5,314.7</b>	<b>(2.6)</b>
Textiles and garments	400.1	393.4	(1.7)	3,218.7	3,333.7	3.6
Rubber products	55.1	68.2	23.9	524.9	508.4	(3.1)
Machinery and mechanical appliances	19.4	28.6	47.9	197.3	200.2	1.5
Food beverages and tobacco	18.5	25.6	38.6	174.3	199.5	14.5
Petroleum products	25.3	23.0	(8.9)	289.4	185.4	(35.9)
Gems, diamonds and jewellery	22.3	20.7	(7.2)	227.8	187.3	(17.8)
Leather, travel goods and footwear	10.7	14.5	35.6	95.0	115.7	21.7
Base metals and articles	2.9	12.9	336.9	38.1	55.8	46.5
Printing industry products	9.6	5.2	(46.2)	32.6	17.7	(45.7)
Other	54.4	62.2	14.3	657.1	511.0	(22.2)
<b>2. Agricultural exports</b>	<b>177.8</b>	<b>208.0</b>	<b>17.0</b>	<b>1,667.8</b>	<b>1,520.6</b>	<b>(8.8)</b>
Tea	91.8	108.9	18.6	901.2	835.0	(7.3)
Spices	30.1	35.7	18.9	249.3	194.1	(22.1)
Coconut	29.5	32.3	9.7	238.0	238.3	0.1
Seafood	11.5	13.0	12.6	112.5	110.7	(1.6)
Minor agricultural products	8.1	11.7	44.1	106.7	83.4	(21.8)
Rubber	1.7	2.3	32.4	17.8	20.9	17.2
Unmanufactured tobacco	3.3	2.2	(33.2)	22.5	19.9	(11.6)
Other	1.8	1.9	5.9	19.9	18.3	(8.3)
<b>3. Mineral and other exports</b>	<b>2.9</b>	<b>4.0</b>	<b>38.0</b>	<b>32.6</b>	<b>29.9</b>	<b>(8.2)</b>
<b>Total exports</b>	<b>798.9</b>	<b>866.3</b>	<b>8.4</b>	<b>7,155.4</b>	<b>6,865.2</b>	<b>(4.1)</b>

Sources: Sri Lanka Customs,  
National Gem and Jewelry Authority,  
Ceylon Petroleum Corporation and Other  
Exporters of Petroleum,  
Central Bank of Sri Lanka

## Import performance

Expenditure on imports during August 2016 was US dollars 1,649 million which is an 8.3 per cent increase compared to August 2015. This increase is the first significant year-on-year increase recorded after June 2015. The decrease in expenditure on consumer goods, which was driven by the reduction in vehicle imports, was offset by the increase in import expenditure on both intermediate goods and investment goods, leading to the year-on-year increase in import expenditure.

The increase in import expenditure on intermediate goods was driven mainly by expenditure on textiles and textile articles, gold and mineral products, which contributed by 52.4 per cent, 34.7 per cent and 14.4 per cent to the year-on-year increase in import expenditure in August 2016. Import expenditure on fuel that

includes crude oil, refined petroleum and coal, was 3.2 per cent lower in August 2016 on a year-on-year basis with import expenditure on crude oil declining by 13.3 per cent to US dollars 69 million. Volume of crude oil imports increased slightly by 2.0 per cent on a year-on-year basis, while the price was declined by a significant 14.9 per cent. Import expenditure on investment goods increased by 18.1 per cent, year-on-year, in August 2016 as expenditure on machinery and equipment increased by 35.9 per cent, with higher imports in almost all subcategories. Import expenditure on building materials also rose by 18.2 per cent on a year-on-year basis, reflecting the increase in construction activities in the economy. Import expenditure on transport equipment declined by 17.6 per cent, year-on-year, due to a reduction in import expenditure on auto-trishaws and buses. However, expenditure on consumer goods declined by 6.3 per cent, year-on-year, mainly due to the 53.7 per cent decrease in import expenditure on personal vehicles in August 2016 compared to August 2015, due to increase in import taxes that led to a decline in the numbers of personal motor-vehicles. Import expenditure on all other non-food consumer goods increased in August 2016, on a year-on-year basis. Meanwhile, expenditure in respect of imports of food and beverages increased by 17.8 per cent on a year-on-year basis while expenditure on sugar, beverages and spices increased by 80.9 per cent, 140.3 per cent and 73.3 per cent, respectively. Higher expenditure on sugar was driven both by higher prices and higher volumes.

On a cumulative basis, expenditure on imports during the first eight months of 2016 reached US dollars 12,403 million which is a 1.6 per cent decline from the level reached at the end of the first eight months of 2015, mainly due to the import of personal vehicles, fuel, commercial transport equipment, and cereals and milling industry products. However, non-fuel imports during the first eight months of 2016 were 1.2 per cent higher than the corresponding period in 2015. Imports from China, India, Japan, Singapore and the United Arab Emirates accounted for about 57.2 per cent of total imports.

**Table 2: Expenditure on imports**

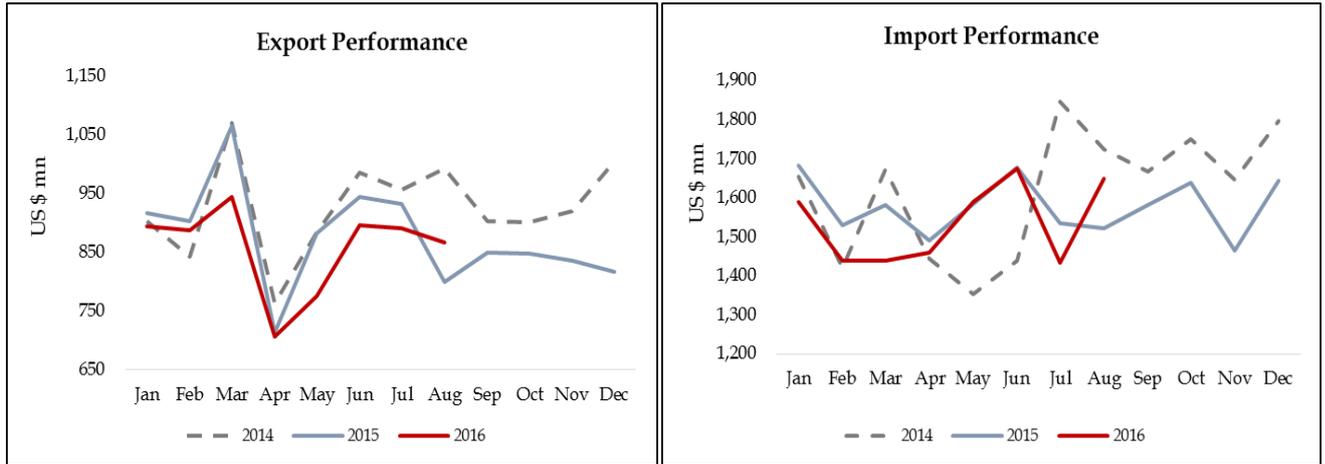
Category	August 2015 (US\$ mn)	August 2016 (US\$ mn)	Change (%)	Jan-Aug 2015 (US\$ mn)	Jan-Aug 2016 (US\$ mn)	Change (%)
<b>1. Consumer goods</b>	<b>420.3</b>	<b>393.7</b>	<b>(6.3)</b>	<b>3,142.4</b>	<b>2,824.9</b>	<b>(10.1)</b>
Food and beverages	121.1	142.6	17.8	1,124.4	1,039.1	(7.6)
Sugar and confectionery	22.0	39.7	80.3	186.9	195.9	4.8
Dairy products	23.8	18.1	(24.1)	169.6	157.1	(7.4)
Beverages	5.7	13.7	140.3	49.6	63.1	27.4
Spices	7.9	13.6	73.3	72.3	90.4	25.0
Oils and fats	2.4	2.9	20.9	23.6	23.8	0.5
Other food and beverages	59.2	54.5	(8.0)	622.4	508.9	(18.2)
Non-food consumer goods	299.2	251.1	(16.1)	2,018.0	1,785.8	(11.5)
Vehicles	160.3	74.1	(53.7)	904.6	547.1	(39.5)
Medical and pharmaceuticals	36.9	44.5	20.7	304.7	354.2	16.2
Other non- food consumables	102.1	132.5	29.8	808.7	884.5	9.4
<b>2. Intermediate goods</b>	<b>738.7</b>	<b>824.0</b>	<b>11.5</b>	<b>6,442.7</b>	<b>6,309.0</b>	<b>(2.1)</b>
Textiles and textile articles	154.2	220.0	42.7	1,547.4	1,764.7	14.0
Fuel	186.5	180.6	(3.2)	1,834.7	1,500.8	(18.2)
Chemical products	84.0	66.5	(20.8)	585.8	568.1	(3.0)
Diamonds and precious stones and met	3.9	53.8	1,274.4	131.3	299.3	128.0
Base metals	48.0	34.3	(28.6)	325.9	249.5	(23.4)
Mineral products	10.5	28.5	172.6	136.5	156.7	14.8
Wheat and maize	14.1	23.1	63.9	214.0	164.5	(23.2)
Other	237.6	217.1	(8.6)	1,667.1	1,605.5	(3.7)
<b>3. Investment goods</b>	<b>363.8</b>	<b>429.7</b>	<b>18.1</b>	<b>3,007.4</b>	<b>3,259.6</b>	<b>8.4</b>
Machinery and equipment	161.1	218.9	35.9	1,482.9	1,815.4	22.4
Building materials	121.9	144.1	18.2	845.1	1,025.7	21.4
Transport equipments	80.5	66.3	(17.6)	676.3	414.3	(38.7)
Other investment Goods	0.3	0.3	3.0	3.0	4.1	36.8
<b>4. Unclassified</b>	<b>0.5</b>	<b>1.7</b>	<b>214.0</b>	<b>11.5</b>	<b>9.4</b>	<b>(18.2)</b>
<b>Total imports</b>	<b>1,523.4</b>	<b>1,649.1</b>	<b>8.3</b>	<b>12,604.0</b>	<b>12,402.9</b>	<b>(1.6)</b>

Sources: Sri Lanka Customs  
Ceylon Petroleum Corporation, Lanka IOC PLC  
Central Bank of Sri Lanka

## Trade Balance

Although export earnings increased in August 2016 compared to August 2015, the higher increase in import expenditure, resulted in the trade deficit to increase to US dollars 783 million in August 2016. The cumulative trade deficit of US dollars 5,538 million at end August 2016 too was higher by US dollars 89 million than the cumulative trade deficit recorded at end August 2015.

**Figure 1: Export and Import Performance**



### Earnings from Tourism

During August 2016, tourist arrivals recorded a growth of 11.8 per cent year-on-year, with 186,288 arrivals. Consequently, cumulative tourist arrivals during the first eight months of 2016 grew by 16.0 per cent to 1,359,906 in comparison to 1,172,465 during the corresponding period of 2015. India continued to be the main source of tourist arrivals followed by China, UK, Germany and France accounting for 52.0 per cent of total tourist arrivals during the period. Accordingly, cumulative earnings from tourism<sup>1</sup> increased to US dollars 2,253.9 million during the first eight months of 2016 compared to US dollars 1,943.3 million recorded during the same period in 2015.

### Workers' Remittances

Workers' remittances grew at a healthy rate of 9.2 per cent, year-on-year, to US dollars 618.3 million during August 2016 compared to US dollars 566.0 million in August 2015. The growth in workers' remittances was on the backdrop of a decline in receipts during July 2016, which is mainly attributed to the prevailing economic stagnation in Middle Eastern countries and lower migration under the unskilled categories. Meanwhile, cumulative inflows from workers' remittances grew by 4.5

<sup>1</sup> 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.

per cent to US dollars 4,804.1 million during the first eight months of 2016 in comparison to US dollars 4,598.0 million in the corresponding period of 2015.

### **Financial Flows**

During August 2016, foreign investments at the CSE recorded a modest net inflow of US dollars 6.7 million, while on a cumulative basis, foreign investments in the CSE was a net outflow of US dollars 24.1 million in the first eight months of 2016. The cumulative outflow from the CSE comprised US dollars 25.4 million outflow from the secondary market and an inflow of US dollars 1.4 million to the primary market. The government securities market also continued to record an inflow in terms of foreign investments during August 2016 amounting to US dollars 99.1 million. However, on a cumulative basis, foreign investments to the government securities market recorded a net outflow of US dollars 34.2 million during the first eight months of the year in comparison to a net outflow of US dollars 633.9 million during the corresponding period of 2015. During the first eight months of 2016, long term loans to the government recorded a net inflow of US dollars 526.4 million compared to a net inflow of US dollars 219.1 million during the corresponding period of 2015.

### **Overall Balance of Payments (BOP) Position**

During the first eight months of 2016, the overall BOP is estimated to have recorded a surplus of US dollars 211.5 million, compared to a deficit of US dollars 1,794.5 million recorded during the corresponding period of 2015.

### **International Reserves and Exchange Rate Movements**

Sri Lanka's gross official reserves increased to US dollars 6.6 billion by end August 2016 which was equivalent to 4.2 months of imports, while total foreign assets which stood at US dollars 9.2 billion was equivalent to 5.9 months of imports.

The rupee recorded a depreciation of 2.6 per cent against the US dollar during the period from end 2015 to 28 November 2016. Reflecting cross currency movements, the rupee also depreciated against the euro by 0.3 per cent, the Japanese yen by 9.8

per cent, the Canadian dollar by 5.4 per cent and the Australian dollar by 4.9 per cent during this period while appreciating against the pound sterling by 15.4 per cent and the Indian rupee by 0.2 per cent.

**Table 3: Summary of External Sector Performance (a)**

Category	August 2015 US\$ mn	August 2016 US\$ mn	Change (%)	Jan- Aug 2015 US\$ mn	Jan-Aug 2016 US\$ mn	Change (%)
Exports	798.9	866.3	8.4	7,155.4	6,865.2	-4.1
Imports	1,523.4	1,649.1	8.3	12,604.0	12,402.9	-1.6
Trade Balance (surplus+)/deficit(-)	-724.5	-782.8	8.0	-5,448.6	-5,537.7	1.6
Earnings from Tourism	276.1(b)	308.8	11.8	1,943.3(b)	2,253.9	16.0
Workers' Remittances	566.0	618.3	9.2	4,598.0	4,804.1	4.5
Inflows to the CSE (Net) (c)	-32.2	6.7	120.9	7.8	-24.1	-407.2
Inflows to the Government (d)	472.1	355.3	-24.7	2,442.7	3,667.3	50.1
of which,						
Treasury Bills and Bonds	372.1	127.1	-65.8	1,003.4	1,036.5	3.3
International Sovereign Bonds	-	-	-	650.0	1,500.0	130.8
Syndicated Loan	-	-	-	-	300.0	-
Long term Loans	99.6	228.2	129.1	729.5	1,117.2	53.2
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.