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Press Release

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External Sector Performance–September 2016

Overview

Sri Lanka's external sector performance improved in September 2016 with a contraction in the trade deficit and continued growth in tourist earnings. The trade deficit in the month of September narrowed as a result of the increase in export earnings together with a reduction in import expenditure. Although worker's remittances recorded a marginal decline, earnings from tourism increased during the month in comparison to that of September 2015. Furthermore, foreign investments at the CSE and government securities market as well as the long term loan inflows to the government supported to strengthen the financial account during September 2016.

Export Performance

Earnings from exports recorded a year-on-year growth for the second consecutive month in September 2016. Accordingly, earnings from exports grew by 5.7 per cent, year-on-year, to US dollars 898 million in September 2016, compared to US dollars 850 million recorded in September 2015. All major categories of exports contributed positively to this growth. However, the highest contribution to the growth was from industrial exports led by transport equipment, food beverages and tobacco and

rubber products, followed by agricultural exports, led by tea. Earnings from transport equipment increased by more than fivefold to US dollars 31 million in September 2016 mainly due to export of a ship to Singapore while earnings from food, beverages and tobacco exports increased owing to higher performance in miscellaneous food preparations. Earnings from rubber product exports showed a growth of 15.3 per cent, year-on-year, mainly due to the growth in export of rubber tires, while all other subcategories under rubber products performed well. Earnings from tea exports increased by 8.0 per cent, year-on-year, in September 2016, reflecting both higher export volume and average export price. Highest amount of tea export earnings was from Iran which increased substantially by 41.0 per cent while Middle-East as a region which accounts for about 43 per cent of total tea exports earnings, showed a growth of 15.9 per cent, year-on-year, in September 2016. Further, export earnings of sea food increased, both in value and volume terms, in September 2016 while earnings from sea food export to the EU, which accounts for about 28.7 per cent of total sea food exports, grew over 200.0 per cent, year-on-year, for the second consecutive month showing improved demand from EU after the removal of the fish export ban imposed to Sri Lanka by the EU.

In contrast, earnings from textiles and garments exports, which account for around 43 per cent of total export earnings, contracted for the second consecutive month by 7.1 per cent, year-on-year, to US dollars 382 million, due to a temporary slowdown in global demand for garment exports from the traditional markets, such as the USA and EU, in September 2016.

On a cumulative basis, export earnings during the first nine months of 2016 contracted by 3.0 per cent, year-on-year, to US dollars 7,763 million, mainly due to the decline in export earnings from transport equipment and petroleum products. In addition, agricultural exports, such as tea and spices, contributed considerably for the contraction in exports during this period. However, earnings from textile and garments exports increased by 2.4 per cent during the first nine months of 2016 reflecting higher exports to both traditional and non-traditional markets. The leading markets for merchandise exports of Sri Lanka during the first nine months of 2016

were the USA, UK, India, Germany and Italy, accounting for about 52 per cent of the total exports.

Table 1: Earnings from Exports

Category	September 2015 (US\$ mn)	September 2016 (US\$ mn)	Change (%)	Jan-Sep 2015 (US\$ mn)	Jan-Sep 2016 (US\$ mn)	Change (%)
1. Industrial exports	636.4	669.6	5.2	6,091.4	5,984.3	(1.8)
Textiles and garments	411.2	382.2	(7.1)	3,629.9	3,715.8	2.4
Rubber products	58.6	67.5	15.3	583.5	575.9	(1.3)
Transport equipment	5.3	31.1	486.3	225.0	112.0	(50.2)
Food beverages and tobacco	21.2	30.7	45.0	195.5	230.2	17.8
Gems, Diamonds and Jewellery	24.6	23.3	(5.4)	252.4	210.6	(16.5)
Base metals and articles	4.3	11.5	165.8	42.4	67.3	58.7
Chemical products	12.2	10.2	(16.1)	95.8	95.2	(0.6)
Animal fodder	7.1	5.0	(29.3)	58.2	48.0	(17.5)
Printing industry products	5.2	0.4	(92.4)	37.8	18.1	(52.1)
Other	86.7	107.7	24.2	971.0	911.1	(6.2)
2. Agricultural exports	205.6	224.0	8.9	1,873.5	1,744.6	(6.9)
Tea	106.3	114.9	8.0	1,007.5	949.9	(5.7)
Spices	37.0	39.9	7.8	286.3	234.0	(18.3)
Coconut	34.6	37.2	7.4	272.6	275.5	1.1
Sea Food	10.0	12.3	22.8	122.5	123.0	0.4
Minor agricultural products	11.4	10.5	(7.9)	118.1	93.9	(20.4)
Vegetables	2.1	2.6	21.4	22.0	20.8	(5.5)
Rubber	2.2	2.3	3.6	20.0	23.1	15.7
Other	2.0	4.4	120.4	24.5	24.3	(0.8)
3. Mineral and other	7.6	4.1	(46.4)	40.2	34.0	(15.4)
Total exports	849.6	897.6	5.7	8,005.0	7,762.9	(3.0)

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 2.5 per cent to US dollars 1,543 million in September 2016 compared to the same month in 2015. Lower expenditure incurred on importation of personal motor vehicles and fuel contributed largely to this

decline. Expenditure on personal motor vehicle imports decreased significantly by 51.9 per cent, year-on-year, in September 2016, as a result of the lower importation of personal motor cars and hybrid electric motor vehicles. Meanwhile, expenditure on fuel imports declined substantially by 22.1 per cent to US dollars 176 million in September 2016, compared to US dollars 226 million in September 2015 reflecting declines in export volumes and average import prices of crude oil, and refined petroleum products. The average import price of crude oil in September 2016 declined to US dollars 46.99 per barrel compared to US dollars 48.65 per barrel recorded in September 2015. In addition, import expenditure on wheat and maize decreased significantly by 48.7 per cent in September 2016, due to lower import volumes and average import prices. Further, the lower import expenditure registered on fertiliser, mineral products and building materials contributed largely to the decline in the overall import expenditure during the month. However, import expenditure on textiles and textile articles increased considerably in September 2016 mainly due to higher imports of fabric and yarn. In September 2016, import expenditure on diamonds and precious stones and metals increased substantially owing to the higher gold imports during the month together with the comparatively lower importation of gold during the corresponding month of the previous year. Meanwhile, import expenditure on machinery and equipment, sugar and confectionery, base metals and transport equipment increased by 16.7 per cent, 186.2 per cent, 61.6 per cent and 17.4 per cent, respectively on a year-on-year basis in September 2016.

On a cumulative basis, expenditure on imports during the period January to September 2016 decreased by 1.7 per cent to US dollars 13,946 million, mainly due to the declines recorded in the importation of vehicles for personal use and business purposes, fuel and rice. China, India, Singapore, Japan and UAE were the main import origins during the first nine months of 2016, accounting for about 57 per cent of total imports.

Table 2: Expenditure on Imports

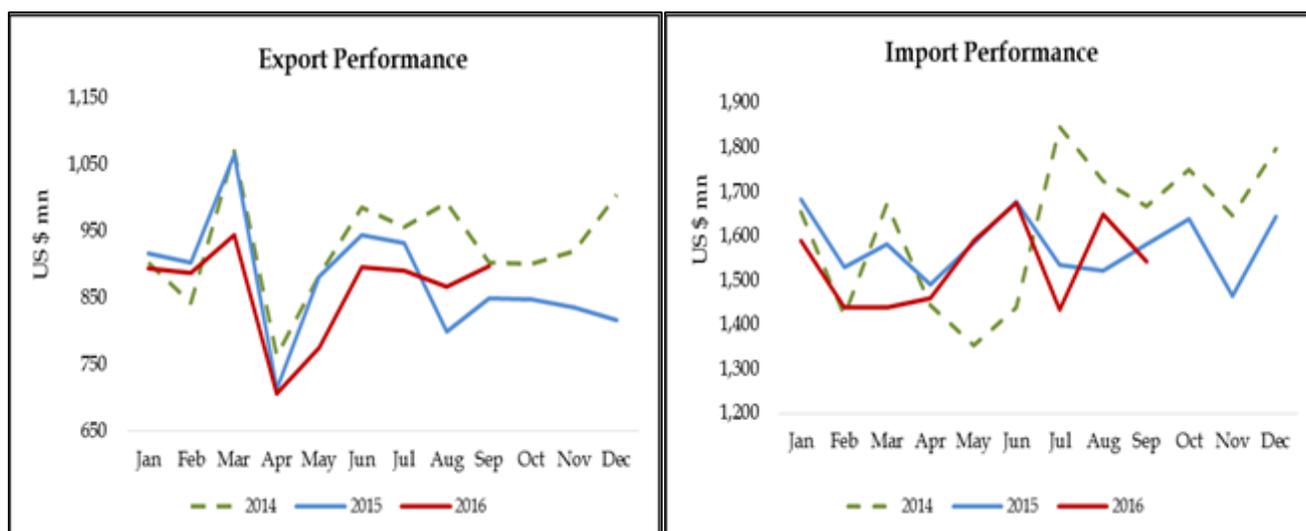
Category	September 2015 (US\$ mn)	September 2016 (US\$ mn)	Change (%)	Jan-Sep 2015 (US\$ mn)	Jan-Sep 2016 (US\$ mn)	Change (%)
1. Consumer goods	392.4	374.8	(4.5)	3,534.8	3,199.7	(9.5)
Food and beverages	115.4	144.8	25.5	1,239.8	1,183.9	(4.5)
Vegetables	24.3	28.6	17.7	293.7	280.3	(4.6)
Sugar and confectionery	13.5	38.7	186.2	200.4	234.6	17.1
Dairy products	19.0	18.6	(2.2)	188.6	175.7	(6.9)
Seafood	24.6	20.3	(17.3)	153.7	179.6	16.9
Cereals and milling industry products	4.5	1.8	(60.0)	143.3	15.4	(89.2)
Other food and beverages	29.6	36.8	24.6	260.1	298.3	14.7
Non-food consumer goods	276.9	230.0	(16.9)	2,294.9	2,015.8	(12.2)
Vehicles	126.2	60.8	(51.9)	1,030.9	607.9	(41.0)
Clothing and accessories	36.4	44.4	22.1	292.0	287.6	(1.5)
Other non- food consumables	114.3	124.8	9.2	972.0	1,120.3	15.3
2. Intermediate goods	829.0	775.6	(6.4)	7,271.7	7,084.6	(2.6)
Textiles and textile articles	168.2	221.5	31.7	1,715.6	1,986.2	15.8
Fuel	226.4	176.3	(22.1)	2,061.0	1,677.1	(18.6)
Diamonds and precious stones and metals	7.0	44.4	535.4	138.3	343.7	148.6
Base metals	25.0	40.3	61.6	350.8	289.8	(17.4)
Wheat and maize	74.2	38.1	(48.7)	288.3	202.5	(29.7)
Fertilisers	38.8	7.1	(81.6)	200.8	106.3	(47.1)
Other	289.5	247.8	(14.4)	2,516.8	2,478.9	(1.5)
3. Investment goods	359.6	392.1	9.0	3,367.0	3,651.7	8.5
Machinery and equipment	166.8	194.7	16.7	1,649.7	2,010.1	21.8
Building materials	119.5	111.3	(6.9)	964.6	1,137.0	17.9
Transport equipment	73.0	85.7	17.4	749.4	500.0	(33.3)
Other investment goods	0.3	0.4	12.9	3.4	4.5	34.3
4. Unclassified	1.8	0.4	(79.8)	13.3	9.8	(26.3)
Total imports	1,582.7	1,542.9	(2.5)	14,186.7	13,945.7	(1.7)

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

Trade Balance

The deficit in the trade balance decreased to US dollars 645 million by 12.0 per cent, year-on-year, in September 2016 compared to US dollars 733 million in September 2015 due to the combined effect of an increase in exports and a decline in imports. However, the cumulative trade deficit during the first nine months of 2016 remained almost unchanged at US dollars 6,183 million in comparison to US dollars 6,182 million recorded during the same period of 2015.

Figure 1: Export and Import Performance



Sources: Central Bank of Sri Lanka
Sri Lanka Customs

Earnings from Tourism

The tourist arrivals for the month of September 2016 amounted to 148,499 tourists which recorded a marginal growth of 3.6 per cent year-on-year. As a result, cumulative tourist arrivals during the first nine months of 2016 increased by 14.6 per cent to 1,508,405 compared to 1,315,839 during the corresponding period of 2015. The top five sources of tourist arrivals in September 2016 were India, China, UK, Germany and France accounting for 51.9 per cent of total tourist arrivals up to the month of September 2016. Cumulative earnings from tourism¹ increased to US

¹This 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.

dollars 2,500.0 million during the first nine months of 2016 when compared to US dollars 2,180.9 million recorded during the same period in 2015.

Workers' Remittances

Receipts from workers' remittances declined marginally by 1.1 per cent, year-on-year, to US dollars 577.9 million during September 2016 compared to US dollars 584.2 million in September 2015. However, cumulative inflows from workers' remittances at US dollars 5,382.0 million during the first nine months of 2016 recorded a growth of 3.9 per cent in comparison to US dollars 5,182.2 million in the corresponding period of 2015.

Financial Flows

Foreign investments at the CSE recorded a net inflow of US dollars 5.1 million in September 2016. However, the cumulative foreign investments in the CSE during the first nine months of 2016 recorded a net outflow of US dollars 19.02 million which included net outflows of US dollars 20.44 million from the secondary market and an inflow of US dollars 1.42 million to the primary market. Furthermore, foreign investments in the government securities market recorded a net inflow of US dollars 82.2 million during September 2016 while on a cumulative basis, foreign investments in the government securities market was a net inflow of US dollars 48.0 million during the first nine months of the year in comparison to a net outflow of US dollars 920.2 million during the corresponding period of 2015. During the first nine months of 2016, long term loans to the government recorded a net inflow of US dollars 866.0 million, in comparison to a net inflow of US dollars 177.6 million during the first nine months of 2015.

Overall Balance of Payments (BOP) Position

During the first nine months of 2016, the overall BOP is estimated to have recorded a surplus of US dollars 243.1 million, in comparison to a deficit of US dollars 2,316.5 million recorded during the corresponding period of 2015.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end September 2016 amounted to US dollars 6.5 billion, equivalent to 4.1 months of imports, while total foreign assets stood at US dollars 9.1 billion, equivalent to 5.8 months of imports.

The rupee recorded a depreciation of 0.1 per cent against the US dollar during the period from end 2016 to 10th January 2017. Reflecting cross currency movements, the rupee also depreciated against the Japanese yen by 0.6 per cent, the Canadian dollar by 2.0 per cent, the Australian dollar by 1.7 per cent and the euro by 0.6 per cent during this period while appreciating against the pound sterling by 0.9 per cent and the Indian rupee by 0.2 per cent.

Table 3: Summary of External Sector Performance (a)

Category	Sep 2015 US\$ mn	Sep 2016 US\$ mn	Change (%)	Jan- Sep 2015 US\$ mn	Jan-Sep 2016 US\$ mn	Change (%)
Exports	849.6	897.6	5.7	8,005.0	7,762.9	-3.0
Imports	1,582.7	1,542.9	-2.5	14,186.7	13,945.7	-1.7
Trade Balance (surplus+)/deficit(-))	-733.0	-645.2	-12.0	-6,181.7	-6,182.9	0.0
Earnings from Tourism	237.6(b)	246.1	3.6	2,180.9(b)	2,500.0	14.6
Workers' Remittances	584.2	577.9	-1.1	5,182.2	5,382.0	3.9
Inflows to the CSE (Net) (c)	1.3	5.1	278.4	9.2	-19.0	-307.4
Inflows to the Government (d)	184.0	592.9	222.3	2,626.7	4,260.3	62.2
of which,						
Treasury Bills and Bonds	88.3	124.6	41.0	1,091.7	1,161.1	6.4
International Sovereign Bonds	-	-	-	650.0	1,500.0	130.8
Syndicated Loan	-	-	-	-	700	-
Long term Loans	93.7	468.0	399.4	823.2	1,585.2	92.6
Foreign Direct Investment (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.