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CENTRAL BANK OF SRI LANKA

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Press Release

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External Sector Performance - January 2017

Overview

Sri Lanka's external sector demonstrated a modest performance in January 2017. During the month, the trade deficit widened as a result of increased import expenditure and a decline in export earnings. However, foreign currency receipts in terms of earnings from tourism recorded a relatively high growth in January 2017 while workers' remittances grew at a moderate rate, year-on-year. The government securities market and the Colombo Stock Exchange (CSE) witnessed net outflows during January 2017.

Export Performance

Earnings from exports at US dollars 865 million in January 2017 registered a 3.8 per cent decline, year-on-year, compared to US dollars 899 million in January 2016, reflecting subdued performance mainly in earnings from industrial exports despite an increase recorded in agricultural exports.

Export earnings from industrial exports, which account for about 77 per cent of total exports, declined by 6.7 per cent, year-on-year, to US dollars 668 million in January

2017. This was mainly due to the decline in earnings from textiles and garments, rubber products and gems, diamonds and jewellery. Earnings from textiles and garments exports, which account for around 49 per cent of total export earnings, contracted by 8.2 per cent, year-on-year, to US dollars 426 million in January 2017, reflecting lower demand for garments from both traditional and non-traditional markets. Export earnings from rubber products and gems, diamonds and jewellery declined by 18.7 per cent and 28.8 per cent, respectively, due to decreases in all sub categories related to both items. In addition, earnings from leather, travel goods and footwear also contributed substantially to the decline in industrial products during January 2017. However, export earnings from machinery and mechanical appliances, base metals and articles, printing industry products and wood and paper products showed a growth in January 2017, when compared to the previous year.

Earnings from agricultural exports grew by 7.9 per cent, year-on-year, to US dollars 194 million in January 2017 reflecting improved performances in all subsectors except minor agricultural products and unmanufactured tobacco. Earnings from spices showed an impressive growth of 33.7 per cent, year-on-year, in January 2017 mainly due to the improved performance in cloves, nutmeg and mace and cinnamon. In addition, earnings from seafood exports increased by 19.7 per cent, year-on-year, in January 2017 especially due to the 107.3 per cent growth in seafood exports to the EU. Earnings from tea exports, which account for 12 per cent of total exports, increased by 2.1 per cent, year-on-year, due to increased average prices which have been on a rising trend since September 2016, despite the decline in volume exported.

The leading markets for merchandise exports of Sri Lanka in January 2017 were the USA, the UK, India, Germany and Italy accounting for about 53 per cent of the total exports.

Table 1: Export Earnings (a)

Category	January 2016 (b) (US\$ mn)	January 2017 (US\$ mn)	Change (%)
1. Industrial exports	716.2	668.0	(6.7)
Textiles and garments	464.4	426.3	(8.2)
o/w Garments	441.6	405.2	(8.2)
Rubber products	71.3	58.0	(18.7)
Petroleum products	28.6	29.5	3.1
Machinery and mechanical appliances	20.7	26.0	25.7
Food beverages and tobacco	25.6	22.1	(14.0)
Gems, diamonds and jewellery	30.6	21.8	(28.8)
Wood and paper products	8.7	11.2	29.7
Leather, travel goods and footwear	12.2	9.3	(23.7)
Base metals and articles	4.2	8.2	96.6
Transport equipment	5.6	7.3	29.5
Printing industry products	1.9	4.6	141.6
Other	42.4	43.8	3.4
2. Agricultural exports	179.5	193.7	7.9
Tea	99.4	101.6	2.1
Spices	22.8	30.4	33.7
Coconut	24.5	27.3	11.5
Seafood	15.2	18.2	19.7
Minor agricultural products	9.5	7.3	(23.7)
Rubber	3.5	5.0	45.1
Unmanufactured tobacco	2.8	2.0	(26.9)
Vegetables	1.8	1.8	1.3
3. Mineral and other	2.9	3.0	3.7
Total exports	898.6	864.7	(3.8)

Sources: Sri Lanka Customs

National Gem and Jewellery Authority

Ceylon Petroleum Corporation and Other Exporters of Petroleum

Central Bank of Sri Lanka

(a) Provisional

(b) Revised

Import Performance

Expenditure on imports increased substantially by 13.2 per cent, year-on-year, to US dollars 1,798 million in January 2017 continuing the double digit growth in imports for the fourth consecutive month. Expenditure on intermediate goods was the main

driver for this growth followed by consumer goods imports. However, expenditure on investment goods imports declined in January 2017 reversing the year-on-year growth trend started from January 2016.

Expenditure on import of intermediate goods increased in January 2017 by 18.6 per cent, year-on-year, to US dollars 950 million. This increase was mainly driven by higher expenditure on fuel led by refined petroleum imports. Import expenditure on refined petroleum increased by 101.6 per cent, year-on-year, due to higher volumes imported as a result of increased thermal power generation with prevailing drought conditions in the country as well as higher international oil prices. In addition, gold imports, valued at US dollars 64 million in January 2017, continued to record a high growth while import of iron and steel, categorised under base metals, increased substantially. Import of textiles and textile articles, the second major import item of Sri Lanka, increased marginally by 0.8 per cent in January 2017. However, expenditure on wheat and maize, fertiliser and crude oil imports declined in January 2017 when compared with the corresponding month of the previous year.

Expenditure on consumer goods imports increased by 4.4 per cent, year-on-year, in January 2017 to US dollars 359 million from US dollars 344 million in January 2016. This was mainly due to the increase in expenditure on imports of food and beverages led by sugar, rice, milk and cream and dried fish. In contrast, expenditure on non-food consumer goods declined mainly led by motor cars, medicaments and printed material imports in January 2017. However, expenditure on motorcycles, radio and TVs and clothing imports increased during this period.

Import expenditure on investment goods declined in January 2017 by 2.6 per cent, year-on-year, to US dollars 432 million from US dollars 444 million a year ago. The decline in expenditure on import of transport equipment led by auto trishaws and machinery and equipment led by textile industry machinery mainly contributed to this decline. However, import expenditure on building materials increased marginally in January 2017 with higher imports of goods such as iron and steel, wood and ceramic products.

India, China, Singapore, the UAE and Japan were the main import origins in January 2017, accounting for about 59 per cent of total imports.

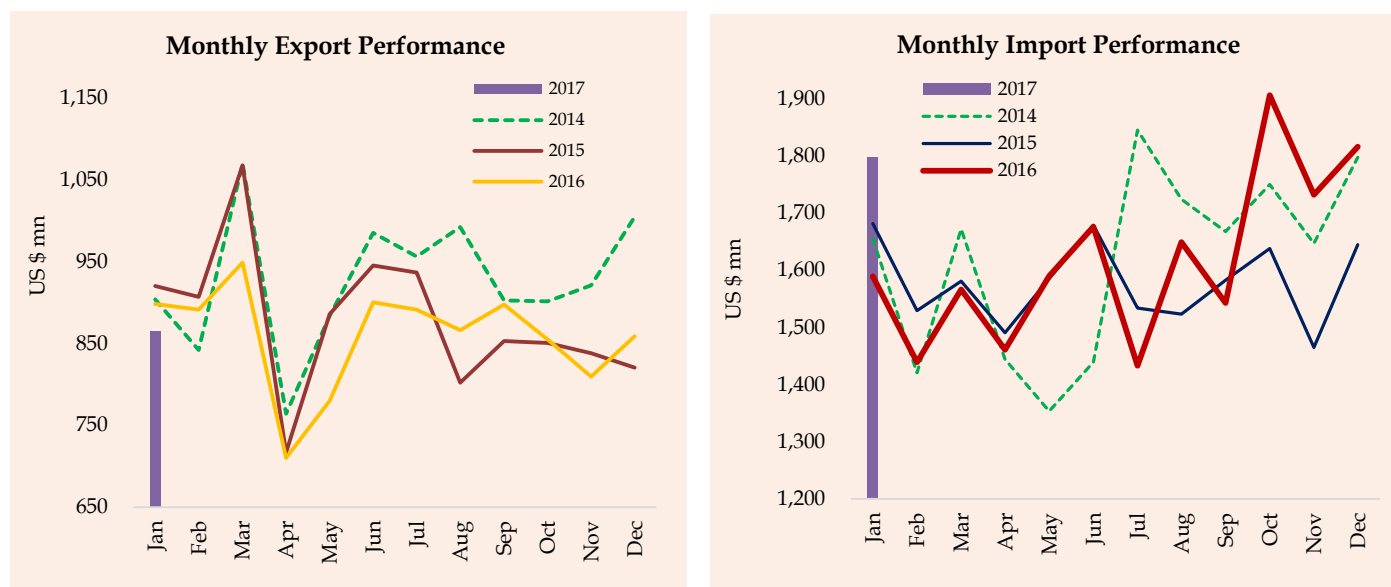
Table 2: Import Expenditure (a)

Category	January 2016 (US\$ mn)	January 2017 (a) (US\$ mn)	Change (%)
1. Consumer goods	343.5	358.8	4.4
Food and beverages	118.6	143.6	21.0
Vegetables	44.3	38.6	(12.8)
Sugar and confectionery	9.6	22.0	129.5
Dairy products	18.1	21.1	16.7
Seafood	15.9	18.2	14.1
Cereals and milling industry products	1.8	12.7	596.5
Spices	10.9	9.5	(12.9)
Other food and beverages	18.1	21.5	19.0
Non-food consumer goods	224.9	215.2	(4.3)
Vehicles	86.9	66.0	(24.1)
Medical and pharmaceuticals	41.5	38.9	(6.3)
Other non- food consumables	96.4	110.3	14.4
2. Intermediate goods	801.2	950.1	18.6
Fuel	174.8	282.2	61.4
o/w Crude oil	45.3	41.4	(8.6)
Refined petroleum	101.5	204.7	101.6
Coal	28.0	36.1	29.0
Diamonds and precious stones and metals	24.7	69.0	179.2
o/w Gold	15.5	64.1	314.8
Base metals	30.9	38.4	24.2
Paper and paperboard and articles thereof	42.5	34.1	(19.9)
Wheat and maize	43.0	30.7	(28.7)
Vehicle and machinery parts	21.5	28.7	33.4
Fertiliser	11.8	4.2	(64.7)
Unmanufactured tobacco	4.7	3.4	(28.3)
Other	447.2	459.6	2.8
3. Investment goods	443.9	432.2	(2.6)
Machinery and equipment	255.5	250.6	(1.9)
Building material	135.0	136.0	0.7
Transport equipment	52.6	44.3	(15.8)
Other investment goods	0.9	1.4	57.7
4. Unclassified imports	0.5	57.3	11,678.9
Total imports	1,589.1	1,798.4	13.2

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

(a) Provisional

Figure 1: Export and Import Performance



Sources: Central Bank of Sri Lanka
Sri Lanka Customs

Trade Balance

The deficit in the trade balance increased substantially in January 2017 due to higher expenditure on imports and the decline in earnings from exports. Accordingly, the trade deficit widened to US dollars 934 million in January 2017 from US dollars 691 million in January 2016.

Earnings from Tourism

Tourist arrivals continued its growth momentum in January 2017 with 219,360 arrivals, registering a year-on-year growth of 12.9 per cent. In January 2017, China took precedence over India to be ranked as the top source of tourist arrivals, while the UK, Germany and France were the other major sources. These five countries accounted for 48.1 per cent of total tourist arrivals during January 2017. Earnings from tourism¹ also grew by 12.9 per cent, year-on-year, to US dollars 376.3 million in January 2017.

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 2017.

Workers' Remittances

The moderation of receipts from workers' remittances observed during the previous year due to the adverse economic and geopolitical conditions in the Middle Eastern region, continued to 2017 as well. Consequently, receipts from workers' remittances grew marginally by 1.4 per cent, year-on-year, to US dollars 571.6 million in January 2017 compared to US dollars 563.4 million in January 2016.

Financial Flows

Foreign investments in the CSE recorded a net outflow of US dollars 11.0 million in January 2017, which almost completely reflected the net outflow from the secondary market whereas the inflow to the primary market was not significant. Continuing the trend observed in the last few months of the previous year, foreign investments in the government securities market witnessed a net outflow of US dollars 150.7 million in January 2017 compared to a net outflow of US dollars 118.3 million during the corresponding month of 2016. Long term loans to the government increased to US dollars 24.4 million, on a net basis, in January 2017, in comparison to a net outflow of US dollars 5.3 million recorded in January 2016.

Overall Balance of Payment (BOP) Position

The overall BOP is estimated to have recorded a deficit of US dollars 211.7 million during the year up to end January 2017, in comparison to a deficit of US dollars 619.3 million recorded during the corresponding period of 2016.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end January 2017 amounted to US dollars 5.5 billion, equivalent to 3.3 months of imports. Meanwhile, total foreign assets, which include gross official reserves and foreign assets owned by deposit taking corporations, stood at US dollars 7.6 billion, equivalent to 4.6 months of imports.

The Sri Lankan rupee, which depreciated by 3.8 per cent against the US dollar in 2016, recorded a further depreciation of 1.4 per cent this year up to 03 May 2017. Reflecting cross currency movements, the rupee also depreciated against the euro by

4.9 per cent, the Indian rupee by 6.8 per cent, the pound sterling by 6.4 per cent, the Japanese yen by 5.1 per cent and the Australian dollar by 5.1 per cent whilst appreciated against the Canadian dollar by 0.4 per cent during the year up to 03 May 2017.

Table 3: Summary of External Sector Performance (a)

Category	January 2016 US\$ mn	January 2017 US\$ mn	Change (%)
Exports	898.6(b)	864.7	-3.8
Imports	1,589.1	1,798.4	13.2
Trade balance	-690.5(b)	-933.7	35.2
Earnings from tourism	333.3(b)	376.3	12.9
Workers' remittances	563.4	571.6	1.4
Inflows to the CSE (Net) (c)	-18.9	-11.0	-41.8
Inflows to the Government (d)	90.4	200.4	121.6
of which,			
Treasury bills and bonds	13.2	82.8	526.3
Long term loans	72.7	117.3	61.4

Sources: 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.