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Press Release

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External Sector Performance - February 2017

Overview

Sri Lanka's external sector remained subdued with a widening of the trade deficit, a moderation in tourist earnings and a modest growth in workers' remittances in February 2017. A considerable widening in the trade deficit was observed in February with a decline in exports amidst increased imports mainly due to higher imports of fuel and rice. Earnings from tourism dipped with a marginal decline in tourist arrivals during the month, which could partly be attributed to the day time closure of the Bandaranayke International Airport (BIA) for resurfacing of the runway. The growth in workers' remittances in February remained below the expected level. Further, the financial account was adversely affected by significant outflows from the government securities market during the month. However, some foreign investments were observed in the Colombo Stock Exchange (CSE) with inflows to both primary and secondary markets during the month.

The pressure on the external account has been eased somewhat in subsequent months by improved export performance; a reversal of capital outflows with investments in the stock exchange and inflows to the government securities market

as well as proceeds from the International Sovereign Bond of US dollars 1.5 billion and a syndicated loan of US dollars 450 million.

Export Performance

Earnings from exports at US dollars 868 million in February 2017 registered a decline of 2.7 per cent from US dollars 892 million in February 2016, mainly due to lower industrial exports.

Earnings from industrial exports, which represent about 76 per cent of total exports, declined by 6.5 per cent, year-on-year, to US dollars 659 million in February 2017 mainly due to reduced earnings from textiles and garments. Export earnings from textiles and garments contracted by 14.5 per cent to US dollars 396 million in February 2017 reflecting a significant decline in garment exports to the EU and the USA. Food, beverages and tobacco and gems, diamonds and jewellery also contributed substantially to the lower earnings from industrial exports. However, earnings from machinery and mechanical appliances, petroleum products and rubber products showed an improved performance.

Meanwhile, earnings from agricultural exports grew for the third consecutive month registering an increase of 12.5 per cent to US dollars 205 million in February 2017. Earnings from tea exports increased by 12.8 per cent in value terms due to higher prices, in spite of a decline in the volume exported. Earnings from spices showed a significant growth of 25.7 per cent in February 2017 mainly due to the improved performance in cloves, nutmeg and mace, owing to significant increases in volume despite lower prices. In addition, earnings from seafood exports increased by 27.3 per cent, year-on-year, in February 2017 mainly due to a 111.0 per cent growth observed in seafood exports to the EU. However, earnings from coconuts, minor agricultural products and vegetables exports declined in February 2017.

On a cumulative basis, export earnings during the first two months of 2017 at US dollars 1,733 million, contracted by 3.2 per cent, year-on-year, mainly due to lower exports of textiles and garments, food, beverages and tobacco, gems, diamonds and jewellery and rubber products. However, earnings from machinery and mechanical

appliances, tea and spice exports increased considerably during the period concerned.

The leading markets for merchandise exports of Sri Lanka during the first two months of 2017 were the USA, the UK, India, Germany and Italy accounting for about 52 per cent of total exports.

Table 1: Export Earnings (a)

Category	February 2016 (b) (US\$ mn)	February 2017 (US\$ mn)	Change (%)	Jan - Feb 2016 (b) (US\$ mn)	Jan - Feb 2017 (US\$ mn)	Change (%)
1. Industrial exports	705.3	659.4	(6.5)	1,421.5	1,327.4	(6.6)
Textiles and garments	463.1	396.1	(14.5)	927.5	822.4	(11.3)
o/w Garments	436.9	371.0	(15.1)	878.5	776.2	(11.6)
Printing industry products	0.4	2.6	549.2	2.3	7.3	212.5
Machinery and mechanical appliances	24.5	37.6	53.4	45.2	63.6	40.7
Petroleum products	18.5	27.2	47.3	47.1	56.7	20.4
Rubber products	60.2	64.8	7.7	131.5	122.8	(6.6)
Leather, travel goods and footwear	12.1	16.3	34.6	24.4	25.7	5.3
Chemical products	10.4	10.3	(0.6)	20.6	21.3	3.1
Plastics and articles thereof	5.6	5.1	(9.5)	11.5	9.7	(15.7)
Gems, Diamonds and Jewellery	24.7	22.6	(8.5)	55.3	44.4	(19.8)
Food beverages and tobacco	34.4	23.7	(31.2)	60.0	45.7	(23.8)
Other	51.5	53.1	3.1	96.1	107.9	12.3
2. Agricultural exports	182.1	204.9	12.5	361.6	398.5	10.2
Tea	101.0	113.9	12.8	200.4	215.5	7.5
Coconut	28.2	27.2	(3.7)	52.7	54.5	3.4
Spices	20.1	25.3	25.7	42.9	55.7	30.0
Seafood	14.7	18.8	27.3	30.0	37.0	23.5
Minor agricultural products	9.3	8.6	(7.8)	18.8	15.9	(15.8)
Rubber	3.3	5.6	71.7	6.7	10.6	58.0
Unmanufactured tobacco	3.1	3.7	20.1	5.9	5.8	(2.1)
Vegetables	2.4	1.8	(24.5)	4.2	3.6	(13.3)
3. Mineral and other	4.2	3.6	(14.4)	7.1	6.6	(6.9)
Total exports	891.6	867.8	(2.7)	1,790.2	1,732.5	(3.2)

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 by 11.9 per cent, year-on-year, to US dollars 1,611 million in February 2017, continuing the double digit growth seen in imports for the fifth consecutive month. Higher expenditure incurred on intermediate goods contributed largely to this growth.

Expenditure on imports of intermediate goods increased in February 2017 by 25.3 per cent, year-on-year, to US dollars 907 million, led by fuel imports. Import expenditure on fuel increased by more than two fold to US dollars 355 million driven by higher expenditure on refined petroleum imports, while import of crude oil and coal also increased, owing to the increased thermal power generation due to prevailing drought conditions in the country. Higher international oil prices and depreciation of the rupee also contributed to the increase in import expenditure on fuel. In addition, expenditure on imports of raw materials of iron and steel, and gold also contributed significantly to the high growth in intermediate goods imports. However, import of textiles and textile articles, declined by 17.1 per cent in February 2017 in line with the decline in textiles and garments exports.

Import expenditure on investment goods at US dollars 360 million declined in February 2017 by 2.5 per cent, year-on-year, mainly due to reduced imports of machinery and equipment. Import expenditure on machinery and equipment declined by 5.9 per cent, year-on-year, mainly due to the decline in imports of telecommunication devices. Import expenditure on transport equipment also decreased by 4.8 per cent led by road vehicles such as auto trishaws, commercial cabs and buses. However, import expenditure on building materials increased owing to higher iron and steel imports during the month.

Expenditure on consumer goods imports marginally declined by 0.7 per cent, year-on-year, in February 2017 to US dollars 343 million. This was driven by the decline in imports of non-food consumer goods such as personal vehicles, home appliances and clothing and accessories. In contrast, expenditure on food and beverages increased substantially mainly due to the increase in rice imports. Rice imports increased to US dollars 36 million in February 2017 in comparison to a value less than US dollars 1 million incurred for rice imports in February 2016.

On a cumulative basis, expenditure on imports valued at US dollars 3,410 million during the first two months of 2017 increased by 12.6 per cent, year-on-year, led by import outlays on fuel, gold and rice. However, import expenditure incurred on textiles and textile articles, vehicles and machinery and equipment declined during this period.

India, China, the UAE, Singapore and Japan were the main import origins during the first two months of 2017, accounting for about 59 per cent of total imports.

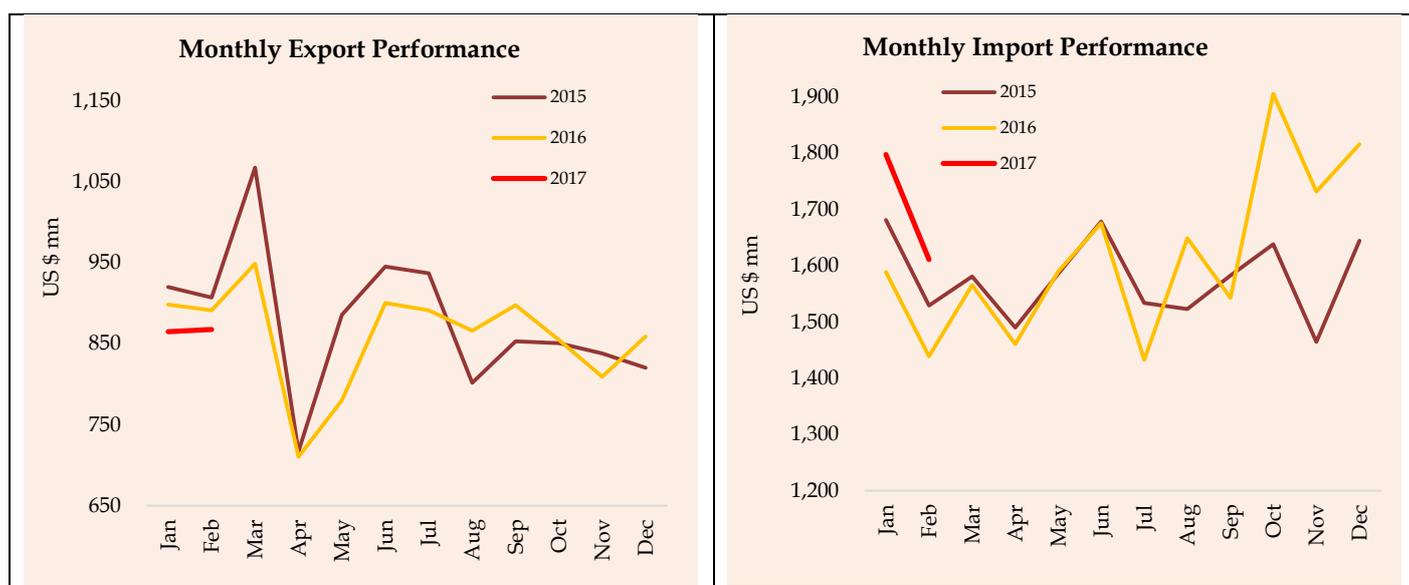
Table 2: Import Expenditure (a)

Category	February	February	Change	Jan -	Jan -	Change
	2016	2017		Feb	Feb	
	(US\$ mn)	(US\$ mn)	(%)	2016	2017	(%)
	(US\$ mn)	(US\$ mn)		(US\$ mn)	(US\$ mn)	
1. Consumer goods	345.6	343.2	(0.7)	689.1	702.0	1.9
Food and beverages	122.6	148.1	20.8	241.2	291.7	20.9
Cereals and milling industry products	1.3	37.1	2,770.5	3.1	49.8	1,496.5
Vegetables	37.5	28.1	(25.1)	81.8	66.8	(18.4)
Dairy products	19.9	26.5	33.5	37.9	47.6	25.5
Seafood	19.3	14.1	(26.6)	35.2	32.3	(8.2)
Spices	9.9	6.5	(34.3)	20.7	15.9	(23.1)
Oils and fats	1.8	3.2	83.7	4.7	7.5	61.0
Other food and beverages	33.0	32.6	(1.3)	57.8	71.8	24.3
Non-food consumer goods	223.0	195.1	(12.5)	447.9	410.3	(8.4)
Vehicles	64.5	51.3	(20.4)	151.4	117.3	(22.5)
Telecommunication devices	15.9	20.7	30.1	33.3	42.8	28.2
Other non- food consumables	142.6	123.1	(13.7)	263.1	250.2	(4.9)
2. Intermediate goods	724.0	907.4	25.3	1,525.2	1,857.5	21.8
Fuel	148.8	354.6	138.3	323.6	636.8	96.8
o/w Crude oil	25.0	84.2	237.3	70.3	125.6	78.7
Refined petroleum	100.2	213.8	113.4	201.7	418.5	107.5
Coal	23.7	56.6	139.1	51.7	92.7	79.5
Diamonds and precious stones and metals	38.9	54.4	40.1	63.6	123.4	94.2
o/w Gold	25.3	46.6	84.4	40.7	110.8	171.9
Textiles and textile articles	225.0	186.6	(17.1)	475.9	439.6	(7.6)
Chemical products	70.2	62.1	(11.5)	138.7	131.8	(5.0)
Base metals	26.2	52.5	100.2	57.1	90.9	59.1
Food preparations	16.1	21.1	31.6	37.3	43.1	15.5
Wheat and maize	10.2	13.1	28.8	53.2	43.8	(17.7)
Fertiliser	16.4	9.0	(45.5)	28.2	13.1	(53.5)
Other	172.2	153.9	(10.6)	347.5	334.9	(3.6)
3. Investment goods	369.4	360.3	(2.5)	813.4	792.5	(2.6)
Machinery and equipment	210.2	197.8	(5.9)	465.7	448.4	(3.7)
Building material	105.9	111.9	5.6	240.8	247.8	2.9
Transport equipment	52.8	50.2	(4.8)	105.4	94.5	(10.3)
Other investment goods	0.5	0.4	(28.0)	1.4	1.8	26.5
4. Unclassified imports	0.3	0.2	(30.8)	0.8	57.5	6,976.0
Total imports	1,439.3	1,611.2	11.9	3,028.4	3,409.6	12.6

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 widened substantially to US dollars 743 million in February 2017 compared to US dollars 548 million in February 2016. The cumulative trade deficit during the first two months of 2017 increased substantially to US dollars 1,677 million from US dollars 1,238 million recorded during the same period of 2016.

Earnings from Tourism

Tourist arrivals in February 2017 at 197,517 recorded a negative growth of 0.1 per cent, year on year, compared to 197,697 arrivals in February 2016. The marginal reduction in tourist arrivals can largely be attributed to the decline in tourist arrivals from China. In contrast, tourist arrivals from India, United Kingdom and Germany recorded an increase, while arrivals from France declined during the month. The cancellation and the rescheduling of some flights due to the resurfacing of the BIA could have had some impact on tourist arrivals in February 2017. However, a notable feature of tourist arrivals in the first two months of 2017 was the pick-up in the number of tourists from the Eastern Europe region. As a result of the decline in

tourist arrivals, earnings from tourism¹ also declined to US dollars 338.9 million in February 2017.

Workers' Remittances

The moderation in receipts from workers' remittances continued in February 2017. Receipts from workers' remittances recorded a marginal growth of 2.6 per cent, year-on-year, amounting US dollars 568.7 million during February 2017. The low growth in workers' remittances is expected to continue particularly with the adverse economic and geopolitical conditions in the Middle Eastern region.

Financial Flows

The trend in net outflows from the government securities market continued in February with a significant net outflow of US dollars 255.9 million during the month. Further, long term loans to the government recorded a net outflow of US dollars 57.6 million with loan repayments during the month amounting to US dollars 149.2 million compared to a loan inflow of US dollars 91.6 million. However, foreign investments in the CSE recorded a net inflow of US dollars 57.2 million with a inflow of US dollars 14.2 million to the primary market and a net inflow of US dollars 43.0 million to the secondary market.

Overall Balance of Payment (BOP) Position

The overall BOP is estimated to have recorded a deficit of US dollars 258.3 million during the year up to end February 2017, compared to a deficit of US dollars 534.0 million recorded up to end February 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 2017.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end February 2017 amounted to US dollars 5.6 billion, equivalent to 3.4 months of imports. Meanwhile, total foreign assets, which include gross official reserves and foreign assets owned by deposit taking corporations, stood at US dollars 7.8 billion, equivalent to 4.7 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 1.8 per cent this year up to 23 May 2017. Reflecting cross currency movements, the rupee also depreciated against the euro by 8.0 per cent, the Indian rupee by 6.7 per cent, the pound sterling by 7.1 per cent, the Japanese yen by 6.2 per cent, the Australian dollar by 5.1 per cent and the Canadian dollar by 1.7 per cent during the year up to 23 May 2017.

Table 3: Summary of External Sector Performance (a)

Category	February 2016 US\$ mn	February 2017 US\$ mn	Change (%)	Jan - Feb 2016 US\$ mn	Jan - Feb 2017 US\$ mn	Change (%)
Exports	891.6 (b)	867.8	-2.7	1,790.2 (b)	1,732.5	-3.2
Imports	1,439.3	1,611.2	11.9	3,028.4	3,409.6	12.6
Trade balance	-547.7 (b)	-743.4	35.7	-1,238.2 (b)	-1,677.0	35.4
Earnings from tourism	339.2 (b)	338.9	-0.1	672.5 (b)	715.2	6.4
Workers' remittances	554.2	568.7	2.6	1,117.6	1,140.3	2.0
Inflows to the CSE (Net) (c)	8.8	57.2	551.1	-10.1	46.2	557.4
Inflows to the Government (d)	53.8 (b)	223.0	314.8	144.2 (b)	438.3	203.9
of which,						
Treasury bills and bonds	9.7	129.9	1,234.2	23.0	212.8	826.5
Long term loans	43.9 (b)	91.6	108.8	116.5 (b)	223.6	91.9

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.