



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel : 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

Issued By Economic Research Department

Date 06.06.2017

External Sector Performance – March 2017

Overview

Reversing the declining trend observed during the last two months, earnings from exports increased by 9.8 per cent (year-on-year) in March 2017. However, the trade deficit widened in March 2017 compared to the corresponding month of 2016 as the increase in export earnings was offset by the higher increase in import expenditure. Tourist earnings declined in March 2017, as in the previous month, with the partial closure of the Bandaranaike International Airport (BIA) for resurfacing of the runway. Meanwhile, workers' remittances also recorded a decline in March 2017. In the financial account, foreign inflows to the Colombo Stock Exchange (CSE) continued to record a net inflow while a reversal of trend in net outflows by foreign investors was observed in the government securities market with marginal net inflows during the month. Financial account of the Balance of Payments (BOP) further improved in subsequent months, with the continuation of the above inflows, and also as a result of the receipt of the proceeds of the International Sovereign Bond and the syndicated loan to the government, thus helping to stabilise the external sector.

Export Performance

Earnings from exports passed the US dollars 1 billion mark in March 2017 for the first time since March 2015, amounting to US dollars 1,042 million and registering a growth of 9.8 per cent (year-on-year). This increase was mainly led by agricultural exports followed by industrial exports.

Earnings from agricultural exports grew for the fourth consecutive month, registering an increase of 28.3 per cent, to US dollars 257 million in March 2017. Improved export performance recorded in tea, seafood, and spices contributed largely to the growth in agricultural exports. In spite of the decline in volume exported, earnings from tea exports increased by 18.6 per cent, in value terms, due to a 22.9 per cent (year-on-year) increase in prices. Earnings from seafood exports increased by 75.2 per cent, year-on-year, in March 2017 reflecting a substantial increase in seafood exports to the EU market, following the removal of the fisheries ban. In addition, earnings from spices exports showed a significant growth of 67.8 per cent in March 2017, mainly due to the improved performance of cloves, cinnamon and pepper, owing to significant increase in volumes. All sub categories under agricultural exports increased during this period, except unmanufactured tobacco.

Earnings from industrial exports, which represent about 75 per cent of total exports, grew by 4.7 per cent, year-on-year, to US dollars 779 million in March 2017 led by higher earnings from textile and garment exports. Despite the year-on-year decline recorded during the previous two months, export earnings from textiles and garments increased by 2.6 per cent to US dollars 453 million in March 2017, reflecting increased demand from the EU market. In addition, machinery and mechanical appliances, petroleum products, base metals and articles and rubber products also showed improved performance. However, despite the notable increase recorded in exports of motor boats and jet skis, export earnings from transport equipment declined in March 2017, reflecting the base effect of exporting a cruise ship in March 2016. In addition, earnings from food, beverages and tobacco, ceramic products and printing industry products also declined in March 2017.

On a cumulative basis, export earnings during the first three months of 2017 stood at US dollars 2,774 million, reflecting 1.3 per cent increase (year-on-year) with increased earnings from exports recorded in March 2017. Increased export earnings from tea, machinery and mechanical appliances and spices contributed mainly to the increase in export income during the first quarter of the year. However, earnings from textiles and garments, food, beverages and tobacco, gems, diamonds and jewellery exports declined during the period under consideration.

The leading markets for merchandise exports of Sri Lanka during the first three months of 2017 were the USA, the UK, India, Germany and Italy, accounting for about 51 per cent of total exports.

Table 1: Export Earnings (a)

Category	March 2016 (b) (US\$ mn)	March 2017 (US\$ mn)	Change (%)	Jan - Mar 2016 (b) (US\$ mn)	Jan - Mar 2017 (US\$ mn)	Change (%)
1. Industrial exports	744.1	779.2	4.7	2,165.6	2,106.6	(2.7)
Textiles and garments	441.8	453.3	2.6	1,369.3	1,275.8	(6.8)
o/w Garments	415.6	424.8	2.2	1,294.0	1,201.0	(7.2)
Rubber products	71.6	76.7	7.1	203.2	199.5	(1.8)
Machinery and mechanical appliances	28.8	38.3	33.1	73.9	101.8	37.8
Petroleum products	27.1	33.9	25.1	74.2	90.6	22.1
Food, beverages and tobacco	32.7	30.8	(5.8)	92.7	76.5	(17.5)
Transport equipment	35.7	23.8	(33.2)	47.0	38.9	(17.3)
Base metals and articles	6.5	11.8	80.1	15.5	27.6	77.5
Plastics and articles thereof	7.5	7.7	2.0	19.0	17.4	(8.7)
Printing industry products	3.6	2.7	(25.0)	6.0	10.0	67.4
Ceramics products	4.2	3.3	(22.9)	9.5	8.2	(14.0)
Other	84.5	97.0	14.7	255.2	260.3	2.0
2. Agricultural exports	200.7	257.4	28.3	562.2	655.9	16.7
Tea	112.7	133.7	18.6	313.1	349.1	11.5
Coconut	35.1	36.5	4.1	87.8	91.0	3.6
Spices	18.0	30.2	67.8	60.9	86.0	41.1
Seafood	16.5	29.0	75.2	46.5	66.0	41.9
Minor agricultural products	9.3	16.8	80.4	28.1	32.6	16.0
Rubber	3.2	5.8	83.1	9.9	16.4	66.0
Unmanufactured tobacco	3.3	2.2	(33.6)	9.2	7.9	(13.4)
Vegetables	2.6	3.3	27.1	6.8	6.9	2.0
3. Mineral and other	4.3	5.3	22.6	11.4	11.9	4.2
Total exports	949.0	1,041.8	9.8	2,739.2	2,774.3	1.3

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 19.4 per cent (year-on-year) to US dollars 1,869 million in March 2017. This was the highest import growth (year-on-year) recorded during a month, since October 2014. The largest contribution (76.9 per cent) to the overall growth was from intermediate goods, followed by consumer goods (15.9 per cent) and investment goods (6.4 per cent).

Expenditure incurred on imports of intermediate goods increased in March 2017 by 32.6 per cent (year-on-year) to US dollars 948 million, led by fuel imports. Import expenditure on fuel increased by 51.4 per cent to US dollars 245 million driven by higher expenditure on refined petroleum and coal imports to fulfil the increased demand for thermal and coal based power generation. In addition, expenditure on imports of base metals, led by iron and steel, wheat and gold also contributed significantly to the high growth of imports of intermediate goods. However, the import of fertiliser and agricultural inputs declined in March 2017 when compared to March 2016.

Expenditure incurred on consumer goods imports increased by 11.5 per cent (year-on-year) in March 2017 to US dollars 468 million driven by the increase in imports of food and beverages such as rice, dairy products and fruits. Rice imports increased to US dollars 53 million in March 2017 in comparison to the negligible amount of US dollars 0.9 million recorded in March 2016, due to measures taken to import rice to fulfil the shortage in the domestic market. However, expenditure incurred on non-food consumer goods imports declined mainly due to the decline in expenditure incurred on the importation of clothing and accessories, vehicles, medical and pharmaceuticals, and household and furniture items.

Import expenditure incurred on investment goods increased by 4.5 per cent (year-on-year) to US dollars 450 million in March 2017 mainly due to increased imports of transport equipment. Import expenditure incurred on transport equipment increased by 31.9 per cent led by road vehicles, such as tankers and bowsers. Import expenditure on building material increased, owing to the increase in iron and steel imports during the month. However, import expenditure on machinery and equipment declined by 3.6 per cent (year-on-year), mainly due to the decline in imports of telecommunication devices and machinery and equipment parts.

On a cumulative basis, expenditure on imports during the first three months of 2017 stood at US dollars 5,279 million, reflecting an increase of 14.9 per cent (year-on-year), led by expenditure incurred on fuel, gold and rice. However, expenditure on

vehicles, textiles and textile articles and machinery and equipment imports declined during this period.

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

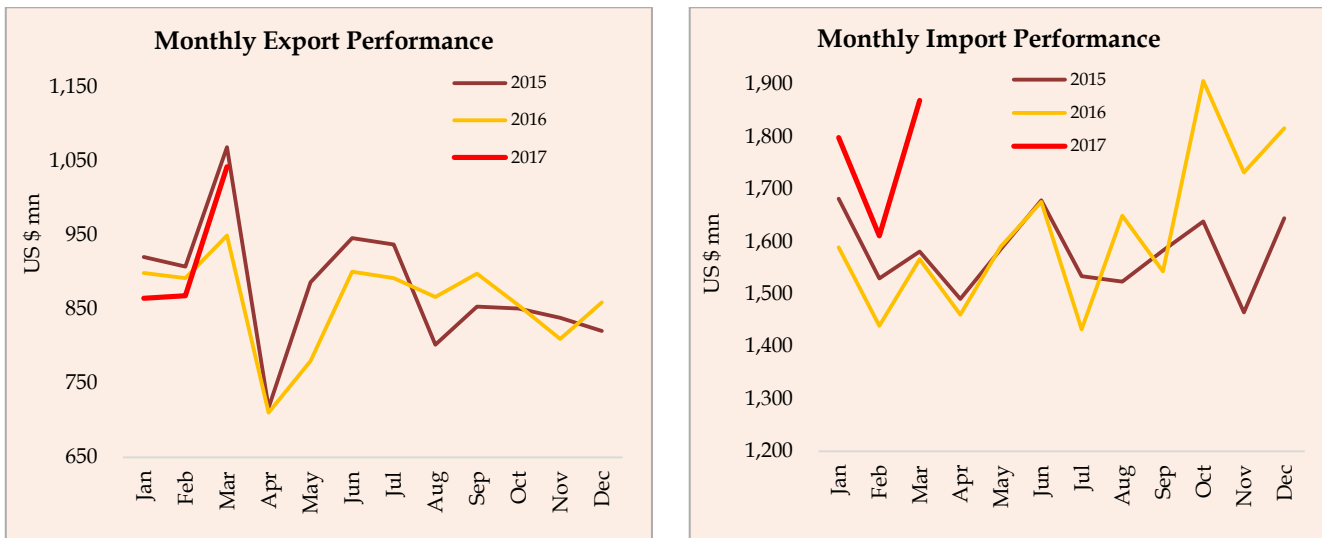
Table 2: Import Expenditure (a)

Category	March 2016 (US\$ mn)	March 2017 (US\$ mn)	Change (%)	Jan - Mar 2016 (US\$ mn)	Jan - Mar 2017 (US\$ mn)	Change (%)
1. Consumer goods	420.1	468.5	11.5	1,109.2	1,170.5	5.5
Food and beverages	158.3	213.5	34.9	399.5	505.2	26.5
Cereals and milling industry products	1.9	53.6	2,765.6	5.0	103.4	1,972.4
Vegetables	39.8	34.8	(12.7)	121.7	101.5	(16.6)
Dairy products	18.8	37.2	98.1	56.7	84.8	49.6
Sugar and confectionery	37.1	24.4	(34.2)	65.1	63.8	(2.0)
Seafood	25.5	22.2	(12.8)	60.7	54.6	(10.1)
Fruits	6.3	9.4	47.7	17.6	22.0	24.8
Other food and beverages	28.8	31.8	10.5	72.8	75.2	3.3
Non-food consumer goods	261.8	255.0	(2.6)	709.7	665.3	(6.3)
Vehicles	80.2	74.5	(7.0)	231.6	191.9	(17.2)
Telecommunication devices	29.9	37.1	23.8	63.3	79.8	26.1
Other non- food consumables	151.7	143.4	(5.5)	414.8	393.6	(5.1)
2. Intermediate goods	715.2	948.5	32.6	2,240.3	2,805.9	25.2
Fuel	162.1	245.3	51.4	485.7	882.1	81.6
o/w Crude oil	25.7	-	-	96.0	125.6	30.8
Refined petroleum	112.1	206.8	84.5	313.8	625.3	99.3
Coal	24.3	38.5	58.7	75.9	131.2	72.9
Diamonds and precious stones and metals	17.3	51.6	198.8	80.8	175.1	116.5
o/w Gold	7.1	40.7	470.7	47.9	151.5	216.4
Textiles and textile articles	222.6	227.0	2.0	698.5	666.7	(4.5)
Base metals	21.8	61.9	184.2	78.9	152.7	93.6
Paper and paperboard and articles thereof	43.1	41.4	(3.9)	117.3	106.4	(9.3)
Wheat and maize	1.3	38.8	2,969.2	54.5	82.6	51.7
Agricultural inputs	18.7	15.4	(17.7)	47.4	44.7	(5.8)
Fertiliser	12.8	6.7	(47.6)	41.1	19.8	(51.7)
Unmanufactured tobacco	5.3	5.2	(2.0)	17.9	12.6	(29.6)
Other	210.4	255.1	21.3	618.3	663.2	7.3
3. Investment goods	430.2	449.6	4.5	1,243.5	1,242.1	(0.1)
Machinery and equipment	246.7	237.8	(3.6)	712.4	686.2	(3.7)
Building material	130.7	142.0	8.6	371.6	389.8	4.9
Transport equipment	52.3	69.0	31.9	157.7	163.5	3.7
Other investment goods	0.5	0.7	59.2	1.9	2.5	34.3
4. Unclassified imports	0.5	2.8	429.3	1.3	60.3	4,398.2
Total imports	1,566.0	1,869.3	19.4	4,594.5	5,278.9	14.9

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 828 million in March 2017 compared to US dollars 617 million in March 2016. The cumulative trade deficit during the first three months of 2017 increased substantially to US dollars 2,505 million from US dollars 1,855 million recorded during the same period of 2016.

Earnings from Tourism

Tourist arrivals continued to decline in March 2017, as in the previous month, attributed to the cancellation and the rescheduling of some flights due to the resurfacing of the runway at the BIA during this period. Tourist arrivals recorded a decline of 2.5 per cent (year-on-year) in March 2017, with 188,076 tourists arriving during the month. However, on cumulative basis, tourist arrivals during the first quarter of 2017, recorded an increase of 3.4 per cent to 604,953, compared to the corresponding period of 2016. The top five sources of tourist arrivals during the first quarter of 2017 were India, China, the UK, Germany and France, accounting for 49.8 per cent of the total tourist arrivals during this period. Following the same trend in tourist arrivals, earnings from tourism also recorded a decline in March 2017.

Accordingly, earnings from tourism¹ amounted to US dollars 322.7 million during the month, while cumulative earnings from tourism recorded an increase with US dollars 1,037.9 million during the first quarter.

Workers' Remittances

Workers' remittances declined by 12.2 per cent (year-on-year) to US dollars 593.4 million in March 2017 from US dollars 675.7 million in March 2016. Furthermore, the cumulative inflow from workers' remittances also declined by 3.3 per cent to US dollars 1,733.7 million during the first quarter of 2017, in comparison to the corresponding period of 2016. The decline in workers' remittances can be attributed to the adverse economic and geopolitical conditions prevailing in the Middle Eastern region.

Financial Flows

During the first quarter of the year, foreign investments in the CSE recorded a net inflow of US dollars 83.4 million, including net inflows of US dollars 35.2 million from the secondary market and inflows of US dollars 48.2 million to the primary market. Foreign investments in the government securities market, which recorded net outflows of US dollars 150.7 million and US dollars 255.9 million in January and February 2017, respectively, indicated a reversal of the trend with a marginal net inflow of US dollars 1.1 million during March 2017. However, on a cumulative basis, the government securities market experienced a net outflow of US dollars 405.5 million during the first quarter of 2017. Long term loans to the government recorded a net inflow of US dollars 28.9 million during the first three months of 2017, compared to a net outflow of US dollars 42.3 million during the corresponding period of 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.

Overall Balance of Payment Position

During the first quarter of 2017, the overall BOP is estimated to have recorded a deficit of US dollars 175.9 million in comparison to a deficit of US dollars 720.2 million recorded during the corresponding period of 2016.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves, as at end March 2017, amounted to US dollars 5.1 billion, equivalent to 3.1 months of imports, while total foreign assets amounted to US dollars 7.1 billion, equivalent to 4.2 months of imports.

The rupee recorded a modest depreciation of 1.8 per cent against the US dollar during the period from end 2016 to 5 June 2017. Furthermore, reflecting the cross currency movements, the rupee also depreciated against the euro by 8.1 per cent, the pound sterling by 6.2 per cent, the Japanese yen by 6.7 per cent, the Canadian dollar by 1.6 per cent, the Australian dollar by 4.6 per cent and the Indian rupee by 6.8 per cent during this period.

Table 3: Summary of External Sector Performance (a)

Category	March 2016 US\$ mn	March 2017 US\$ mn	Change (%)	Jan - Mar 2016 US\$ mn	Jan - Mar 2017 US\$ mn	Change (%)
Exports	949.0 (b)	1,041.8	9.8	2,739.2 (b)	2,774.3	1.3
Imports	1,566.0	1,869.3	19.4	4,594.5	5,278.9	14.9
Trade balance	-617.0 (b)	-827.5	34.1	-1,855.3(b)	-2,504.5	35.0
Earnings from tourism	330.8 (b)	322.7	-2.5	1,003.3 (b)	1,037.9	3.4
Workers' remittances	675.7	593.4	-12.2	1,793.4	1,733.7	-3.3
Inflows to the CSE (Net) (c)	-2.4	34.8	1,549.0	-12.5	83.4	767.0
Inflows to the Government (d)	121.8 (b)	171.7	40.9	266.1 (b)	610.6	129.5
of which,						
Treasury bills and bonds	20.4	69.3	240.0	43.3	282.0	550.7
Long term loans	100.9 (b)	101.8	1.0	217.4 (b)	326.0	50.0

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.