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Press Release

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External Sector Performance – June 2017

Overview

Sri Lanka's external sector showed signs of revival with a significantly improved trade balance and continuous inflows to the government securities market in June 2017. A substantial growth in industrial and agricultural exports and a decline in importation of consumer and intermediate goods resulted in a notable improvement in the trade balance in June 2017. Inflows to the financial account were characterised by steady inflows to the government securities market while foreign investment in the Colombo Stock Exchange (CSE) also remained positive during the month. Other major receipts to the current account remained moderate with the decline in workers' remittances while tourist earnings recorded a modest growth. The positive developments in the financial account and gradual increase in export proceeds stabilized the foreign exchange market and resulted in an increase in gross official reserves by end June 2017 compared to the beginning of the year.

Export Performance

Export earnings in June 2017 expanded for the fourth consecutive month to US dollars 987 million, registering a 9.6 per cent year-on-year growth. The largest contribution to this

growth was from industrial exports (77.1 per cent) followed by agricultural exports (20.6 per cent).

Earnings from industrial exports grew by 9.8 per cent (year-on-year) to US dollars 750 million in June 2017, led by higher exports of transport equipment. Earnings from transport equipment increased by nearly sevenfold to US dollars 54 million compared to the corresponding month in 2016, owing to the export of two ships to Singapore. In addition, high export earnings from food and beverages, rubber products and petroleum products also contributed significantly to the growth in industrial exports. Export earnings from food and beverages increased by more than twofold in June 2017. Exports of rubber products increased by 15.4 per cent (year-on-year) due to growth in all sub categories. Reflecting higher export volumes and prices of bunker and aviation fuel, earnings from exports of petroleum products increased by 26.7 per cent (year-on-year) in June 2017. However, export earnings from textiles and garments, which account for around 40 per cent of total exports, declined by 7.5 per cent (year-on-year) to US dollars 398 million in June 2017 reflecting a decline in garment exports to the USA and EU markets. Earnings from leather, travel goods and footwear and gem, diamond and jewellery also declined during the month.

Earnings from agricultural exports at US dollars 232 million increased by 8.3 per cent (year-on-year) in June 2017 reflecting higher exports of all major categories of agricultural products except coconut and spices. Export earnings from tea increased by 13.7 per cent (year-on-year) to US dollars 139 million owing to higher prices despite the decline in volume by 9.5 per cent. In line with high tea prices prevailing in the international market, the average export price of Ceylon tea increased to US dollars 5.36 per kg in June 2017 from US dollars 4.27 per kg in June 2016. Earnings from minor agricultural products also increased by 30.8 per cent during the month. Earnings from seafood exports continued its growth in June 2017 benefitting from the removal of the ban on exports of fisheries products to the EU market. As a result, seafood exports increased by 17.4 per cent (year-on-year) to US dollars 15 million in June 2017, registering a 101.2 per cent growth in exports to the EU market. However, earnings from exports of spices registered a decline of 12.9 per cent mainly due to the decline in both export volume and prices of pepper and nutmeg and mace despite a significant increase in exports of cinnamon and cloves.

On a cumulative basis, earnings from exports grew by 5.2 per cent (year-on-year) to US dollars 5,398 million during the first half of 2017, as a result of high income received from exports of tea, transport equipment, petroleum products and machinery and mechanical appliances. However, export earnings from textiles and garments, gems, diamonds and jewellery and leather, travel goods and footwear declined during the period under consideration.

Table 1: Export Earnings (a)

Category	June	June	Change (%)	Jan - June	Jan - June	Change (%)
	2016 (b) (US\$ mn)	2017 (US\$ mn)		2016 (b) (US\$ mn)	2017 (US\$ mn)	
1. Industrial exports	682.9	749.8	9.8	4,004.5	4,065.8	1.5
Textiles and garments	430.2	398.1	(7.5)	2,514.7	2,383.6	(5.2)
o/w Garments	407.3	375.4	(7.8)	2,377.0	2,244.7	(5.6)
Rubber products	63.3	73.1	15.4	372.0	388.5	4.4
Food beverages and tobacco	28.7	58.9	105.1	174.0	190.8	9.7
Machinery and mechanical appliances	24.0	28.5	18.7	142.5	180.4	26.6
Petroleum products	23.0	29.2	26.7	132.2	176.9	33.8
Transport equipment	7.6	54.3	615.9	67.1	125.0	86.2
Gems, diamonds and jewellery	21.9	20.6	(5.5)	148.4	123.9	(16.5)
Leather, travel goods and footwear	19.4	15.4	(20.3)	81.6	77.7	(4.8)
Base metals and articles	7.6	6.8	(10.0)	36.8	51.4	39.6
Printing industry products	2.1	4.0	91.3	10.2	17.7	74.4
Other	55.2	60.9	10.3	325.0	349.8	7.6
2. Agricultural exports	214.1	232.0	8.3	1,104.7	1,306.4	18.3
Tea	121.9	138.6	13.7	618.4	728.4	17.8
Coconut	31.5	30.1	(4.2)	174.2	173.8	(0.2)
Spices	32.0	27.8	(12.9)	125.3	160.7	28.2
Seafood	12.9	15.2	17.4	83.5	117.1	40.3
Minor agricultural products	10.0	13.1	30.8	56.9	71.4	25.6
Rubber	1.8	2.0	10.1	17.0	23.9	40.8
Unmanufactured tobacco	1.9	2.9	52.6	16.3	16.4	0.9
Vegetables	2.1	2.3	4.9	13.2	14.7	10.8
3. Mineral and other	3.5	5.5	56.3	21.2	25.4	19.8
Total exports	900.6	987.3	9.6	5,130.3	5,397.6	5.2

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

The leading markets for merchandise exports of Sri Lanka during the first half of 2017 were the USA, the UK, India, Germany and Italy accounting for about 50 per cent of total exports.

Import Performance

Expenditure on imports in June 2017 declined for the first time since September 2016 to US dollars 1,541 million registering a year-on-year decline of 8.0 per cent. This reflected lower imports of all major categories, particularly intermediate goods imports.

Expenditure on import of intermediate goods declined by 12.9 per cent (year-on-year) to US dollars 792 million in June 2017, largely due to the lower expenditure on fuel imports. Expenditure on fuel imports declined by 34.1 per cent (year-on-year) in June 2017 reflecting lower import volumes and average import prices of crude oil and refined petroleum products. In addition, lower import expenditure on base metals such as iron and steel as well as rubber and articles, specially rubber in primary forms, also contributed significantly to the decline in intermediate goods imports. However, import expenditure on gold continued to increase by 42.3 per cent, while import expenditure on fertiliser increased for the first time since August 2016, due to higher import of urea. In addition, import expenditure of textiles and textile articles showed a modest growth of 1.7 per cent (year-on-year) in June 2017.

Expenditure on consumer goods imports declined by 8.9 per cent (year-on-year) to US dollars 323 million in June 2017, mainly driven by lower importation of non-food consumer goods such as medical and pharmaceuticals, clothing and accessories, personal vehicles and telecommunication devices. In addition, import expenditure on food and beverages such as Masoor dhal, garlic, spices, beverages and seafood also declined. However, the increasing trend in rice imports observed since January 2017 continued in June 2017 as well. Accordingly, expenditure on rice imports increased by more than eight-fold due to an increase in import volume to 16 million kg in June 2017 in comparison to 2 million kg in June 2016. Further, import expenditure on sugar increased by 3.4 per cent (year-on-year) to US dollars 26 million, mainly due to higher import prices.

Import expenditure on investment goods declined marginally by 1.2 per cent (year-on-year) to US dollars 405 million during June 2017 led by lower imports of building materials and machinery and equipment. Import expenditure on building material declined by 6.8 per cent (year-on-year) in June 2017, owing to lower imports of iron and steel, cement, wood

products, ceramic products and mineral products. Reflecting the reduction registered in machinery imports for textile industry, electric motors and generating sets, agricultural machinery and telecommunication devices, expenditure on machinery and equipment declined by 2.0 per cent during the month. In contrast, import expenditure on transport equipment increased by 19.1 per cent (year-on-year) in June 2017 mainly due to higher imports of road vehicles such as vans, tankers and bowsers.

On a cumulative basis, import expenditure at US dollars 10,151 million during the first half of 2017 increased by 8.9 per cent (year-on-year) largely due to higher imports of fuel, gold and rice. However, import expenditure on machinery and equipment, personal vehicles and textiles and textile articles declined during the first half of 2017.

India, China, the UAE, Singapore and Japan continued to be the main import origins during the first half of 2017, accounting for about 59 per cent of total imports.

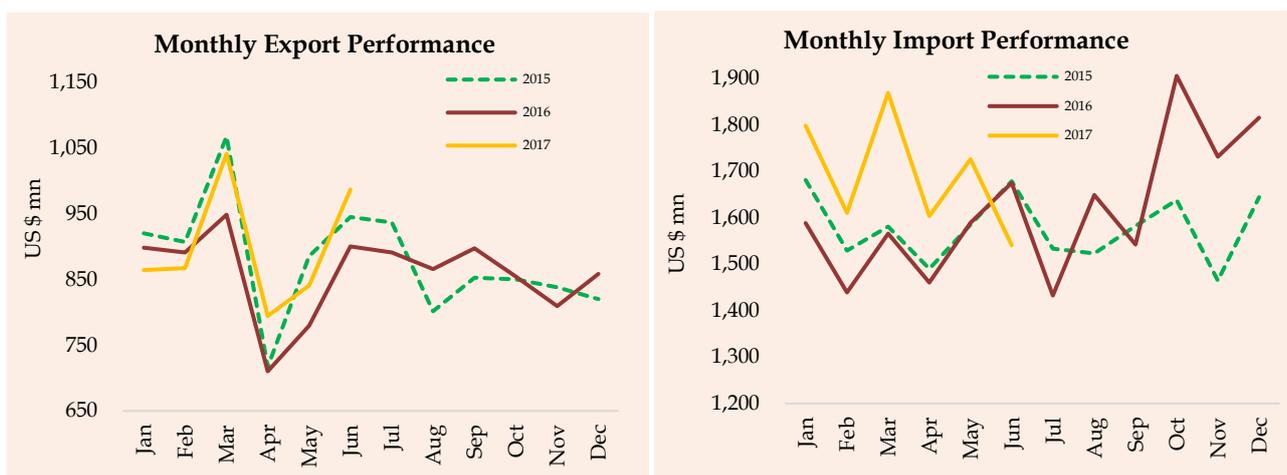
Table 2: Import Expenditure (a)

Category	June	June	Change	Jan - June	Jan - June	Change
	2016	2017		2016	2017	
	(US\$ mn)	(US\$ mn)	(%)	(US\$ mn)	(US\$ mn)	(%)
1. Consumer goods	354.1	322.7	(8.9)	2,107.7	2,223.9	5.5
Food and beverages	137.4	131.4	(4.3)	775.7	923.5	19.1
Vegetables	32.8	27.1	(17.5)	198.3	176.7	(10.9)
Dairy products	22.4	23.5	5.0	119.4	160.4	34.3
Sugar and confectionery	25.0	25.9	3.8	133.7	150.7	12.7
Cereals and milling industry products	1.7	7.5	331.6	11.0	138.1	1,157.6
Spices	10.6	7.3	(31.8)	67.0	50.7	(24.3)
Beverages	9.2	6.0	(34.6)	42.5	38.9	(8.5)
Other food and beverages	35.6	34.1	(4.2)	203.8	208.0	2.1
Non-food consumer goods	216.7	191.3	(11.7)	1,332.0	1,300.4	(2.4)
Vehicles	56.9	54.0	(5.1)	419.3	370.2	(11.7)
Medical and pharmaceuticals	53.0	45.0	(15.2)	264.3	248.7	(5.9)
Clothing and accessories	28.3	24.5	(13.5)	172.0	198.9	15.6
Other non- food consumables	78.5	67.8	(13.6)	476.4	482.6	1.3
2. Intermediate goods	909.7	792.1	(12.9)	4,780.4	5,349.0	11.9
Fuel	304.2	200.6	(34.1)	1,177.8	1,624.5	37.9
o/w Crude oil	107.8	35.6	(67.0)	267.7	279.4	4.4
Refined petroleum	196.3	164.9	(16.0)	813.6	1,174.3	44.3
Coal	0.1	0.0	(99.9)	96.5	170.8	77.0
Diamonds, precious stones and metals	44.1	56.9	28.8	213.0	328.0	54.0
o/w Gold	32.3	46.0	42.3	145.6	274.9	88.9
Textiles and textile articles	215.4	219.0	1.7	1,346.7	1,306.9	(3.0)
Chemical products	70.3	67.1	(4.7)	435.9	408.2	(6.4)
Base metals	56.5	32.5	(42.5)	190.2	251.9	32.5
Wheat and maize	5.9	7.3	22.9	133.1	162.5	22.1
Vehicle and machinery parts	26.3	21.6	(17.7)	144.2	147.8	2.5
Rubber and articles thereof	25.3	20.5	(19.1)	148.6	142.2	(4.3)
Fertiliser	6.5	12.0	85.8	74.9	39.1	(47.7)
Unmanufactured tobacco	4.1	7.2	74.0	32.8	27.1	(17.5)
Other	151.1	147.6	(2.3)	883.3	910.8	3.1
3. Investment goods	410.1	405.3	(1.2)	2,426.7	2,447.2	0.8
Machinery and equipment	224.6	220.2	(2.0)	1,371.9	1,319.0	(3.9)
Building material	137.9	128.5	(6.8)	760.7	789.6	3.8
Transport equipment	46.8	55.8	19.1	290.9	333.8	14.7
Other investment goods	0.7	0.8	21.4	3.3	4.7	45.0
4. Unclassified imports	1.9	20.8	974.2	6.2	130.9	2,014.9
Total imports	1,675.8	1,540.9	(8.0)	9,321.0	10,151.0	8.9

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 contracted to US dollars 554 million in June 2017 from US dollars 775 million in June 2016. However, the cumulative trade deficit during the first half of 2017 increased to US dollars 4,753 million from US dollars 4,191 million in the corresponding period of 2016.

Earnings from Tourism

Tourist arrivals recorded an increase of 4.5 per cent, year-on-year, with 123,351 tourists arriving during the month of June 2017. On a cumulative basis, tourist arrivals grew by 4.8 per cent during the first half of 2017 compared to the corresponding period of 2016. Following the same trend in tourist arrivals, earnings from tourism¹ also increased to US dollars 211.6 million in June 2017. Consequently, on a cumulative basis, earnings from tourism increased by 4.8 per cent to US dollars 1,733.6 million during the first half of 2017. A decline in tourist arrivals from the Middle East, the low growth in Chinese tourist arrivals as well as the rescheduling of some flights due to the resurfacing of the Bandaranayke International Airport (BIA) can be partly attributed to the moderate growth in earnings from tourism during the first half of 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

A significant slowdown in workers' remittances was observed in June 2017 with a 13.5 per cent reduction in remittances on a year-on-year basis amounting to US dollars 557.6 million during the month. The continued decline in workers' remittances can be primarily attributed to the adverse economic and geopolitical conditions prevailing in the Middle Eastern region. Consequently, inflows from workers' remittances declined by 7.2 per cent on a cumulative basis to US dollars 3,354.7 million during the first half of 2017, in comparison to the corresponding period of 2016.

Financial Flows

Reflecting continuous investor confidence, inflows to the financial account continued the positive trend observed in the previous month. Foreign investments in the government securities market recorded a net inflow of US dollars 97.6 million in June 2017. Consequently, total cumulative net outflows of government securities declined to US dollars 153 million for the first half of the year. Further, foreign investments in to the Colombo Stock Exchange (CSE) during the first half of the year recorded a net inflow of US dollars 229.3 million, including net inflows of US dollars 145.9 million and US dollars 83.4 million to the secondary and primary markets, respectively. Meanwhile, long term loans to the government, including the proceeds of the syndicated loan, recorded a net inflow of US dollars 493.3 million during the first half of 2017, compared to a net inflow of US dollars 98.3 million during the corresponding period of 2016.

Overall BOP Position

The overall BOP is estimated to have recorded a surplus of US dollars 1,563.4 million during the first half of 2017 in comparison to a deficit of US dollars 1,186.1 million recorded during the corresponding period of 2016.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves increased to US dollars 7.0 billion by end June 2017 with the proceeds from the International Sovereign Bonds (ISB) issuance and the syndicated loan

facility. The gross official reserves were equivalent to 4.1 months of imports, while total foreign assets at US dollars 9.1 billion were equivalent to 5.3 months of imports.

The rupee recorded a modest depreciation of 2.0 per cent against the US dollar from end 2016 up to 24 August 2017. Reflecting cross-currency movements, the rupee also depreciated against all other major currencies i.e. against the euro by 12.5 per cent, the pound sterling by 5.9 per cent, the Japanese yen by 8.1 per cent, the Canadian dollar by 8.8 per cent, the Australian dollar by 10.2 per cent and the Indian rupee by 7.6 per cent, during this period.

Table 3: Summary of External Sector Performance (a)

Category	June 2016 US\$ mn	June 2017 US\$ mn	Change (%)	Jan - Jun 2016 US\$ mn	Jan - Jun 2017 US\$ mn	Change (%)
Exports	900.6 (b)	987.3	9.6	5,130.3	5,397.6	5.2
Imports	1,675.8	1,540.9	-8.0	9,321.0	10,151.0	8.9
Trade balance (net)	-775.2	-553.6	-	-4,190.7	-4,753.5	-
Earnings from tourism	202.5 (b)	211.6	4.5	1,654.3 (b)	1,733.6	4.8
Workers' remittances	644.5	557.6	-13.5	3,613.1	3,354.7	-7.2
Inflows to the CSE (net) (c)	-3.6	38.2	-	-40.9	229.3	-
Inflows to the Government (d)	299.5 (b)	304.0	1.5	1,137.1(b)	3,353.0	194.9
of which,						
Treasury bills and bonds	193.6	157.7	-18.5	601.1	729.8	21.4
International Sovereign Bonds	-	-	-	-	1,500.0	-
Syndicated Loan	-	-	-	-	450.0	-
Long term loans	100.9 (b)	141.3	40.1	520.3(b)	1,110.5	113.4
Foreign Direct Investment (e)	-	-	-	129.4	146.5	13.2

Sources: Sri Lanka Customs
Central Bank of Sri Lanka
Sri Lanka Tourism Development Authority
Colombo Stock Exchange
Board of Investment of Sri Lanka

- (a) Provisional
- (b) Revised
- (c) Include 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 three months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the Board of Investment of Sri Lanka and net direct investments to the CSE.