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Press Release

Issued By Economic Research Department

Date 03.02.2017

External Sector Performance – October 2016

Overview

Sri Lanka's external sector recorded a modest performance in October 2016 with a deterioration in the trade deficit amidst continued growth in tourist earnings. The trade deficit widened in October as a result of higher import expenditure despite a marginal growth in export earnings. The significant increase in import expenditure in October 2016 was primarily due to the import of a dredger vessel for the Port City construction project. Meanwhile, workers' remittances were marginally higher while a healthy growth was observed in earnings from tourism during October 2016. Although inflows to the Colombo Stock Exchange (CSE) and long term loan proceeds to the government supported the financial account of the Balance of Payments (BOP), the government securities market witnessed a net outflow during October 2016.

Export Performance

Earnings from exports at US dollars 855 million in October 2016 reflected a marginal growth of 0.9 per cent from US dollars 847 million in October 2015. Industrial exports, led by machinery and mechanical appliances, petroleum products, rubber products, textile and garments exports, largely contributed to this growth while

agricultural exports declined. Earnings from the export of machinery and mechanical appliances increased by 32.6 per cent, year-on-year, in October 2016 mainly due to higher exports of engineering equipment. Despite the decline in bunkering prices, export earnings from petroleum products increased owing to higher (52 per cent) export volumes of bunker and aviation fuel. Export income from rubber products also showed a growth mainly due to higher earnings from the export of surgical and other gloves as well as rubber tyres. In addition, income from textile and garment exports, which accounts for around 46 per cent of total export earnings, increased by 1.3 per cent, year-on-year, to US dollars 392 million, mainly due to the growth in garment exports to non-traditional markets, such as Canada, China, Australia and the UAE, despite a decline in exports to the European Union (EU) market. Export earnings from tea, which account for about 13 per cent of total exports, however, declined by 9.4 per cent, year-on-year, to US dollars 108 million, reflecting lower export volumes despite the increase in the average export price by 14.7 per cent, year-on-year, in October 2016. Further, earnings from the export of spices declined by 21.8 per cent, year-on-year, due to lower export volumes of all major spices, including cinnamon. However, seafood exports to the EU continued their impressive growth for the 5th consecutive month after the lifting of the ban on fisheries exports from Sri Lanka to the EU. Export earnings from seafood increased due to higher prices and volumes, specifically to the EU, which accounts for about 21 per cent of seafood exports.

On a cumulative basis, export earnings during the first ten months of 2016 at US dollars 8,618 million, contracted by 2.6 per cent, year-on-year, reflecting lower proceeds from transport equipment and petroleum products. Agricultural exports, such as tea and spices, also contributed to the contraction in exports during this period. However, earnings from textile and garment exports, which account for about 48 per cent of total exports, increased during the first ten months of 2016 due to higher exports to both traditional and non-traditional markets.

The leading markets for merchandise exports of Sri Lanka during the first ten months of 2016 were the USA, the UK, India, Germany and Italy, accounting for about 52 per cent of total exports.

Table 1: Export Earnings

Category	October 2015 (US\$ mn)	October 2016 (US\$ mn)	Change (%)	Jan-Oct 2015 (US\$ mn)	Jan-Oct 2016 (US\$ mn)	Change (%)
1. Industrial exports	626.9	654.0	4.3	6,718.3	6,638.5	(1.2)
Textiles and garments	386.7	391.6	1.3	4,016.6	4,107.5	2.3
Rubber products	63.2	68.3	8.1	646.7	644.3	(0.4)
Machinery and mechanical appliances	27.4	36.3	32.6	248.2	265.7	7.1
Gems, diamonds and jewellery	27.0	25.7	(5.0)	279.4	236.2	(15.4)
Petroleum products	18.8	27.2	44.7	325.9	231.6	(28.9)
Transport equipment	6.2	5.2	(16.0)	231.2	117.2	(49.3)
Chemical products	11.8	11.0	(6.0)	107.6	106.3	(1.2)
Base metals and articles	5.3	8.9	66.4	47.7	76.2	59.6
Printing industry products	2.8	0.6	(80.6)	40.6	18.6	(54.1)
Other	77.7	79.1	1.9	774.5	834.9	7.8
2. Agricultural exports	217.5	197.8	(9.1)	2,091.0	1,942.3	(7.1)
Tea	119.3	108.1	(9.4)	1,126.8	1,057.9	(6.1)
Coconut	32.1	33.0	2.8	304.7	308.5	1.2
Spices	36.7	28.7	(21.8)	323.0	262.7	(18.7)
Seafood	12.1	13.3	9.7	134.6	136.3	1.3
Minor agricultural products	10.0	7.9	(20.9)	128.0	101.8	(20.5)
Unmanufactured tobacco	2.5	1.9	(22.0)	27.0	26.2	(2.7)
Rubber	2.1	3.0	48.5	22.0	26.2	18.8
Other	2.8	1.9	(33.3)	24.8	22.7	(8.6)
3. Mineral and other	2.9	3.3	15.3	43.0	37.3	(13.3)
Total exports	847.3	855.0	0.9	8,852.3	8,618.1	(2.6)

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 increased by 16.4 per cent, year-on-year, to US dollars 1,906 million in October 2016. The increase in expenditure on imports was mainly due to the importation of a dredger vessel by CHEC Port City Colombo (Pvt) Ltd, which was categorised under investment goods. Excluding this, expenditure on imports increased by 5.2 per cent, year-on-year, in October 2016. Import expenditure on intermediate goods and food and beverages increased by 9.6 per cent and 44.1 per cent, respectively, while that on other consumer goods decreased by 25.8 per cent.

The increase in intermediate goods imports was largely driven by the higher import expenditure on textiles and textile articles, gold and fuel. Import expenditure on textiles and textile articles increased by 35.5 per cent due to the increase in import expenditure on fabric. Import expenditure on gold amounted to US dollars 57 million in October 2016, in comparison to a negligible value recorded in October 2015. Import expenditure on crude oil, refined petroleum and coal increased by 4.5 per cent, 14.4 per cent and 8.1 per cent, respectively. The import quantities of refined petroleum increased during this month partly reflecting the increase in thermal power generation during the last few months of 2016. The average unit price paid for crude oil and coal increased by 7.0 per cent and 13.0 per cent, respectively, on a year-on-year basis, whereas the average unit price paid for refined petroleum decreased by 6.1 per cent on a year-on-year basis.

Import expenditure on investment goods, excluding the importation of the dredger vessel in October 2016, increased by 8.0 per cent during the month. While most of the sub-components of machinery and equipment increased, the sub-components that recorded a significant increase were engineering equipment and telecommunication devices. Import expenditure on building material increased by 6.3 per cent, year-on-year, with import expenditure on cement increasing by 65.5 per cent and that on articles of iron and steel decreasing by 29.4 per cent. Expenditure on road vehicle imports decreased by 13.9 per cent, mainly owing to the decrease in auto-trishaw imports despite a substantial increase in import of lorries and agricultural-tractors.

Expenditure on consumer goods imports contracted by 6.6 per cent, year-on-year, to US dollars 377 million in October 2016, with an increase in expenditure on food and beverages and a reduction in expenditure on other consumer goods. The increase in import expenditure on food and beverages was driven mainly by the increase in import volumes and increased prices of sugar. Import expenditure on vegetables, spices, fruits and beverages also increased significantly. The decline in import expenditure on other consumer goods was due to the reduction in the import of personal motor vehicles.

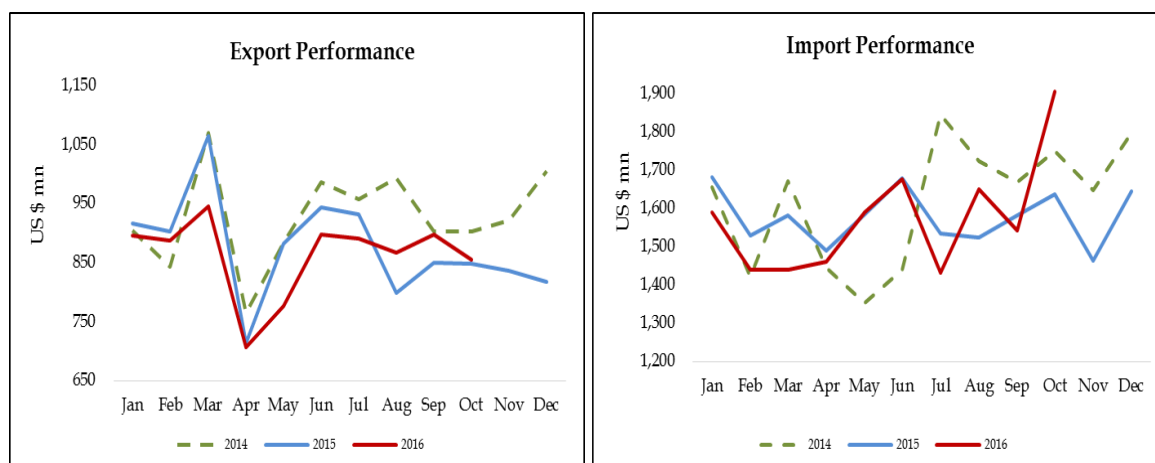
Expenditure on imports at US dollars 15,852 million during the first ten months of 2016 increased marginally by 0.2 per cent from the corresponding period of the previous year. On a cumulative basis, import expenditure on food and beverages, other consumer goods and intermediate goods reduced while that on investment goods increased. China, India, Singapore, the UAE and Japan were the main import origins during the first ten months of 2016, accounting for about 58 per cent of total imports.

Table 2: Import Expenditure

Category	October 2015 (US\$ mn)	October 2016 (US\$ mn)	Change (%)	Jan-Oct 2015 (US\$ mn)	Jan-Oct 2016 (US\$ mn)	Change (%)
1. Consumer goods	403.9	377.2	(6.6)	3,938.7	3,576.8	(9.2)
Food and beverages	110.9	159.8	44.1	1,350.8	1,343.7	(0.5)
Sugar and confectionery	20.9	57.3	174.9	221.3	291.9	31.9
Seafood	19.1	19.3	1.5	172.8	199.0	15.2
Spices	8.8	11.9	35.0	91.1	114.1	25.3
Beverages	6.8	9.9	45.7	64.3	82.4	28.1
Cereals and milling industry products	2.6	2.4	(7.6)	145.9	17.8	(87.8)
Other food and beverages	52.8	58.9	11.6	655.3	638.5	(2.6)
Non-food consumer goods	293.0	217.4	(25.8)	2,587.9	2,233.1	(13.7)
Vehicles	145.5	64.6	(55.6)	1,176.4	672.5	(42.8)
Home appliances	18.9	24.5	29.9	174.5	221.2	26.8
Other non- food consumables	128.6	128.2	(0.3)	1,237.1	1,339.4	8.3
2. Intermediate goods	820.6	899.0	9.6	8,092.2	7,983.6	(1.3)
Textiles and textile articles	171.6	232.4	35.5	1,887.2	2,218.7	17.6
Fuel	228.7	253.7	10.9	2,289.7	1,930.9	(15.7)
Diamonds and precious stones and metals	4.2	68.7	1,532.2	142.5	412.4	189.4
Wheat and maize	14.4	19.2	33.2	302.6	221.7	(26.7)
Mineral products	31.9	15.1	(52.7)	210.0	184.2	(12.3)
Fertiliser	40.0	5.4	(86.5)	240.8	111.7	(53.6)
Other	329.8	304.4	(7.7)	3,019.3	2,904.0	(3.8)
3. Investment goods	413.1	628.7	52.2	3,780.1	4,280.3	13.2
Machinery and equipment	209.5	235.6	12.5	1,859.2	2,245.7	20.8
Building material	126.2	134.1	6.3	1,090.8	1,271.1	16.5
Transport equipment	76.6	258.5	237.5	826.0	758.5	(8.2)
Other investment goods	0.8	0.5	(41.8)	4.2	5.0	19.8
4. Unclassified imports	0.7	1.3	83.6	14.0	11.1	(20.6)
Total imports	1,638.3	1,906.2	16.4	15,825.0	15,851.9	0.2

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

Figure 1: Export and Import Performance



Sources: Central Bank of Sri Lanka
Sri Lanka Customs

Trade Balance

The trade deficit increased to US dollars 1,051 million in October 2016 from US dollars 791 million in October 2015. The cumulative trade deficit during the first ten months of 2016 increased to US dollars 7,234 million from US dollars 6,973 million recorded during the same period of 2015.

Earnings from Tourism

Tourist arrivals at 150,419 in the month of October 2016 registered a significant year-on-year growth of 13.7 per cent. Tourist arrivals during the first ten months of 2016 increased by 14.6 per cent to 1,658,824 from 1,448,119 during the corresponding period of 2015. India, China, the UK, Germany and France were the top five sources of tourist arrivals in October 2016. These five countries accounted for 52.4 per cent of total tourist arrivals up to the month of October 2016. Cumulative earnings from tourism increased to US dollars 2,749.4 million during the first ten months of 2016¹ from US dollars 2,400.1 million recorded during the same period of 2015.

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 2016.

Workers' Remittances

Receipts from workers' remittances increased marginally by 0.4 per cent, year-on-year, to US dollars 607.5 million during October 2016 from US dollars 605.1 million in October 2015. However, cumulative inflows from workers' remittances during the first ten months of 2016 amounted to US dollars 5,989.5 million, a growth of 3.5 per cent, in comparison to US dollars 5,787.3 million in the corresponding period of 2015.

Financial Flows

Foreign investments in the CSE recorded a net inflow of US dollars 8.3 million in October 2016. However, cumulative foreign investments in the CSE during the first ten months of 2016 recorded a net outflow of US dollars 10.8 million. This included a net outflow of US dollars 12.2 million from the secondary market and an inflow of US dollars 1.4 million to the primary market. Foreign investments in the government securities market recorded a net outflow of US dollars 157.2 million in October 2016. On a cumulative basis, the net outflow of foreign investments in the government securities market amounted to US dollars 109.2 million during the first ten months of the year in comparison to a net outflow of US dollars 1,043.3 million during the corresponding period of 2015. During the first ten months of 2016, the government received long term loans amounting to US dollars 950.6 million on a net basis, in comparison to a sum of US dollars 226.2 million received during the first ten months of 2015.

Overall BOP Position

During the first ten months of 2016, the overall BOP is estimated to have recorded a deficit of US dollars 273.6 million, in comparison to a deficit of US dollars 2,337.2 million recorded during the corresponding period of 2015.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end October 2016 amounted to US dollars 6.1 billion, equivalent to 3.8 months of imports, while total foreign assets stood at US dollars 8.5 billion, equivalent to 5.3 months of imports.

The rupee, which depreciated by 3.8 per cent against the US dollar in 2016, recorded a further depreciation of 0.5 per cent from end 2016 to 02 February 2017. Reflecting cross currency movements, the rupee also depreciated against the euro by 2.7 per cent, the pound sterling by 3.5 per cent, the Japanese yen by 3.3 per cent, the Canadian dollar by 3.8 per cent, the Australian dollar by 5.7 per cent and the Indian rupee by 1.2 per cent during this period.

Table 3: Summary of External Sector Performance (a)

Category	Oct 2015 US\$ mn	Oct 2016 US\$ mn	Change (%)	Jan-Oct 2015 US\$ mn	Jan-Oct 2016 US\$ mn	Change (%)
Exports	847.3	855.0	0.9	8,852.3	8,618.1	-2.6
Imports	1,638.3	1,906.2	16.4	15,825.0	15,851.9	0.2
Trade Balance (surplus+)/deficit(-)	-791.0	-1,051.1	32.9	-6,972.7	-7,233.7	3.7
Earnings from Tourism	219.2(b)	249.3	13.7	2,400.1(b)	2,749.4	14.6
Workers' Remittances	605.1	607.5	0.4	5,787.3	5,989.5	3.5
Inflows to the CSE (Net) (c)	-1.3	8.3	-749.2	7.9	-10.8	-236.2
Inflows to the Government (d)	129.1	134.5	4.2	2,755.8	4,434.1	60.9
of which,						
Treasury Bills and Bonds	43.2	43.1	-0.4	1,135.0	1,204.2	6.1
International Sovereign Bonds	-	-	-	650.0	1,500.0	130.8
Syndicated Loan	-	-	-	-	700.0	-
Long term Loans	85.4	85.6	0.2	908.6	1,705.9	87.8
Foreign Direct Investment (e)	-	-	-	677.6	444.5	-34.4

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 nine months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the Board of Investment of Sri Lanka and direct investments to the CSE.