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Press Release

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External Sector Performance – November 2016

Overview

Sri Lanka's external sector recorded a modest performance during November 2016. The trade deficit widened as a result of higher import expenditure amidst a decline in export earnings, albeit marginally, during the month of November 2016. The significant increase in import expenditure in November 2016 was mainly due to the increase in expenditure on intermediate and investment goods. Earnings from tourism continued to record a healthy growth while workers' remittances declined marginally during the month. The government securities market witnessed a net outflow in the month of November, while net inflows to the Colombo Stock Exchange (CSE) and long term loan proceeds to the government supported the Balance of Payments (BOP) in November 2016.

Export Performance

Earnings from exports at US dollars 810 million in November 2016 declined by 3.4 per cent from US dollars 838 million in November 2015, reversing the year-on-year increasing trend observed during the past three months. Agricultural exports, led by minor agricultural products, spices and tea and industrial exports led by textiles and garments and gems, diamonds and jewellery, mainly contributed to this contraction.

Earnings from agricultural exports, which account for about 23 per cent of total exports, declined by 8.3 per cent, year-on-year, to US dollars 183 million in November 2016. Earnings from minor agricultural product exports declined substantially by 63.2 per cent, year-on-year, mainly due to the decline in edible nuts owing to lower seasonal supply while spices exports contracted by 25.4 per cent with significant decline in pepper and cinnamon exports. Earnings from tea exports, declined by 6.6 per cent, year-on-year, to US dollars 101 million, reflecting lower export volume, despite the increase in average export prices by 20.4 per cent in November 2016, which has been increasing continuously since August 2016. However, total earnings from seafood exports increased by 18.2 per cent, year-on-year, in November 2016, continuing its impressive growth performance since the lifting of the ban on seafood exports from Sri Lanka to the European Union (EU). Seafood exports to the EU market grew substantially by 171.2 per cent, year-on-year.

Earnings from industrial exports, which account for about 77 per cent of total exports, declined by 2.0 per cent, year-on-year, to US dollars 624 million in November 2016. Export earnings from textile and garments, which account for around 47 per cent of total export earnings, declined by 6.6 per cent, year-on-year, to US dollars 383 million in November 2016, reflecting lower garment exports to both traditional and non-traditional markets. Earnings from the export of gems, diamonds and jewellery contracted by 47.1 per cent, year-on-year, in November 2016 due to the lower performance in all subsectors. However, export earnings from printing industry products increased by more than twenty fold, mainly as a result of the increase in exports of currency notes. Earnings from petroleum products rose owing to increased income from bunker and aviation fuel as a result of higher bunkering prices and volumes.

On a cumulative basis, export earnings during the first eleven months of 2016 at US dollars 9,451 million, contracted by 2.8 per cent, year-on-year, mainly due to lower exports of transport equipment and petroleum products. In addition, agricultural exports such as tea and spices contributed considerably to the decline in exports during this period. However, earnings from textile and garment exports increased during the first eleven months of 2016 due to higher garment exports mainly to non-

traditional markets with a marginal increase to the EU market despite a decline recorded to the USA market.

The leading markets for merchandise exports of Sri Lanka during the first eleven 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	November 2015 (a) (US\$ mn)	November 2016 (b) (US\$ mn)	Change (%)	Jan-Nov 2015 (a) (US\$ mn)	Jan-Nov 2016 (b) (US\$ mn)	Change (%)
1. Industrial exports	636.5	623.8	(2.0)	7,390.0	7,285.2	(1.4)
Textile and garments	410.2	383.1	(6.6)	4,426.8	4,490.5	1.4
Rubber products	56.0	61.2	9.3	702.7	705.5	0.4
Machinery and mechanical appliances	22.2	27.0	21.7	270.4	292.7	8.3
Petroleum products	17.8	24.5	37.5	343.6	256.1	(25.5)
Gems, diamonds and jewellery	34.2	18.1	(47.1)	313.6	254.3	(18.9)
Leather, travel goods and footwear	11.0	13.8	25.4	126.0	154.4	22.5
Transport equipment	7.0	6.7	(4.8)	238.2	123.8	(48.0)
Plastics and articles thereof	5.5	4.0	(26.0)	56.8	60.6	6.7
Printing industry products	0.6	11.6	2,007.1	41.1	30.2	(26.5)
Other	72.1	73.9	2.4	870.8	917.0	5.3
2. Agricultural exports	199.4	182.9	(8.3)	2,290.4	2,125.2	(7.2)
Tea	108.5	101.3	(6.6)	1,235.3	1,159.2	(6.2)
Coconut	23.3	28.9	24.1	328.0	337.4	2.9
Spices	30.1	22.4	(25.4)	353.0	285.1	(19.2)
Seafood	13.4	15.8	18.2	148.0	152.2	2.8
Minor agricultural products	17.9	6.6	(63.2)	146.0	108.4	(25.7)
Rubber	1.8	3.3	79.3	23.9	29.4	23.4
Unmanufactured tobacco	1.2	2.4	109.6	28.1	28.6	1.9
Other	3.2	2.1	(34.7)	28.0	24.8	(11.6)
3. Mineral and other	2.6	3.0	16.7	45.6	40.3	(11.6)
Total exports	838.4	809.7	(3.4)	9,726.0	9,450.7	(2.8)

Sources: Sri Lanka Customs

National Gem and Jewellery Authority

Ceylon Petroleum Corporation and Other Exporters of Petroleum

Central Bank of Sri Lanka

(a) Revised

(b) Provisional

Import Performance

Expenditure on imports increased by 18.2 per cent, year-on-year, to US dollars 1,732 million in November 2016, due to increased expenditure on certain intermediate goods and investment goods. Import expenditure on consumer goods registered a marginal decline of 0.8 per cent during the month.

Expenditure on imports of intermediate goods increased by 27.8 per cent, year-on-year, to US dollars 883 million in November 2016. This increase was largely driven by an increase in expenditure on textiles and textile articles, coal, gold, base metals and cement clinkers. Import expenditure on textiles and textile articles increased by 54.1 per cent mainly due to an increase in fabric imports. Import expenditure on crude oil increased by 5.8 per cent while import expenditure on refined petroleum products declined by 1.2 per cent during this month. Due to the increase in both volumes and unit prices, import expenditure on coal increased by 166.3 per cent.

Import expenditure on investment goods recorded an increase of 20.4 per cent, year-on-year, during November 2016. Imports of all three categories of investment goods increased significantly, with machinery and equipment, building material and transport equipment increasing by 25.0 per cent, 12.7 per cent and 22.5 per cent, respectively, on a year-on-year basis. Engineering, electronic, medical and laboratory equipment and machinery and equipment parts mainly contributed to the growth in imports of machinery and equipment. All subcategories of building material imports also increased except for cement.

Expenditure on consumer goods imports contracted in November 2016, largely due to lower imports of vehicles for personal use categorised as other consumer goods, in spite of a significant increase in expenditure on food and beverages. The increase in import expenditure on food and beverages was driven mainly by higher import volumes and prices of sugar. Import expenditure on dhal, milk powder and fruits also increased due to larger import volumes.

On a cumulative basis, import expenditure during the first eleven months of 2016 at US dollars 17,584 million registered a year-on-year growth of 1.7 per cent. Higher imports of investment goods mainly contributed to this growth while import of intermediate goods also contributed to the growth. However, import expenditure on

consumer goods declined during this period largely due to reduced imports of non-food consumer goods as a result of significantly lower motor vehicle imports.

China, India, Singapore, the UAE and Japan were the main import origins during the first eleven months of 2016, accounting for about 58 per cent of total imports.

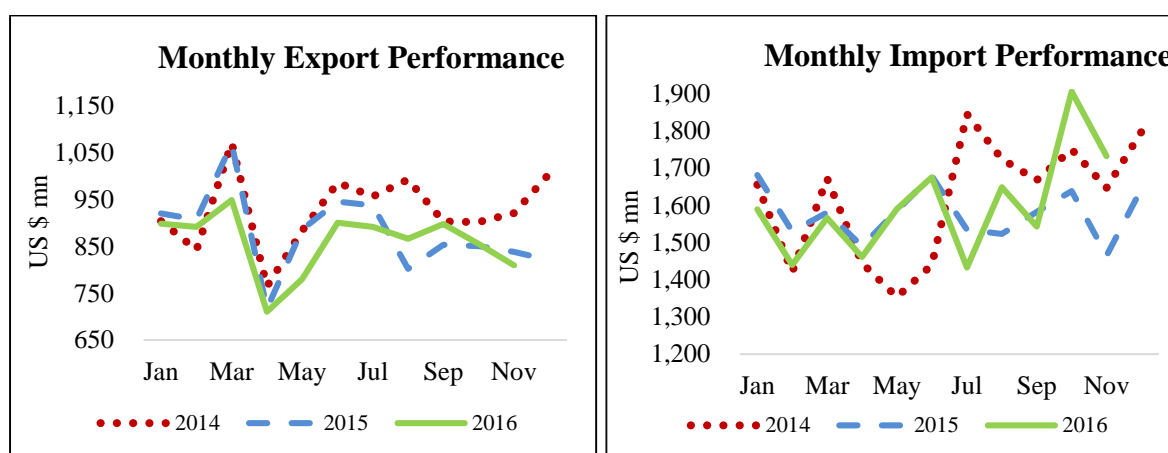
Table 2: Import Expenditure

Category	November 2015 (US\$ mn)	November 2016 (a) (US\$ mn)	Change (%)	Jan-Nov 2015 (US\$ mn)	Jan-Nov 2016 (a) (US\$ mn)	Change (%)
1. Consumer goods	391.0	387.9	(0.8)	4,329.6	3,964.8	(8.4)
Food and beverages	127.6	141.1	10.6	1,478.3	1,484.9	0.4
Vegetables	35.1	30.5	(13.0)	348.4	333.1	(4.4)
Sugar and confectionery	16.7	30.2	80.8	238.0	322.2	35.4
Seafood	21.2	19.2	(9.3)	194.0	218.2	12.5
Beverages	6.8	8.9	30.9	71.1	91.2	28.3
Cereals and milling industry products	2.6	1.7	(33.2)	148.5	19.6	(86.8)
Other food and beverages	45.2	50.5	11.8	478.4	500.6	4.6
Non-food consumer goods	263.4	246.8	(6.3)	2,851.3	2,479.9	(13.0)
Vehicles	117.6	64.0	(45.6)	1,294.0	736.4	(43.1)
Medical and pharmaceuticals	35.0	49.7	41.8	418.6	486.7	16.3
Other non- food consumables	110.8	133.2	20.2	1,138.7	1,256.8	10.4
2. Intermediate goods	690.6	882.9	27.8	8,782.8	8,866.5	1.0
Textiles and textile articles	167.7	258.3	54.1	2,054.9	2,477.0	20.5
Fuel	193.7	221.9	14.6	2,483.4	2,152.8	(13.3)
o/w Crude oil	33.0	34.9	5.8	650.2	514.3	(20.9)
Refined petroleum	143.8	142.1	(1.2)	1,699.4	1,469.3	(13.5)
Coal	16.9	44.9	166.3	133.8	169.2	26.5
Diamonds and precious stones and metals	4.9	28.2	480.2	147.4	440.6	199.0
Base metals	39.7	69.4	74.8	439.4	396.2	(9.8)
Wheat and maize	19.6	1.8	(90.6)	322.3	223.5	(30.6)
Mineral products	11.5	16.8	46.7	221.5	201.0	(9.2)
Fertiliser	20.8	17.8	(14.2)	261.6	129.6	(50.5)
Unmanufactured tobacco	6.6	5.5	(16.4)	76.8	62.7	(18.3)
Other	226.2	263.0	16.3	2,775.6	2,782.9	0.3
3. Investment goods	382.6	460.5	20.4	4,162.7	4,740.8	13.9
Machinery and equipment	195.1	243.9	25.0	2,054.2	2,489.6	21.2
Building materials	132.7	149.5	12.7	1,223.5	1,420.6	16.1
Transport equipment	54.1	66.2	22.5	880.0	824.8	(6.3)
Other investment Goods	0.7	0.9	18.5	4.9	5.9	19.6
4. Unclassified imports	0.8	0.8	4.0	14.8	11.9	(19.3)
Total imports	1,464.9	1,732.1	18.2	17,289.9	17,584.0	1.7

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 922 million in November 2016 compared to US dollars 626 million in November 2015. The cumulative trade deficit during the first eleven months of 2016 increased to US dollars 8,133 million from US dollars 7,564 million recorded during the same period of 2015.

Earnings from Tourism

In November 2016, tourist arrivals increased by 16.0 per cent, year-on-year, to 167,217. Accordingly, tourist arrivals during the first eleven months of 2016 grew by 14.7 per cent to 1,826,041 from 1,592,266 during the corresponding period of 2015. India, China, UK, Germany and France maintained their positions as the top five sources of tourist arrivals during the year up to the month of November 2016. These five countries accounted for 51.9 per cent of total tourist arrivals during this period. Meanwhile, earnings from tourism¹ increased by 20.1 per cent, year-on-year, to US dollars 286.9 million in November 2016. On a cumulative basis, earnings from tourism increased to US dollars 3,132.8 million during the first eleven months of the year from US dollars 2,639.0 million recorded during the same period of 2015.

¹ Revised as per the survey results of the Sri Lanka Tourism Development Authority on average stay period and average spending per day for 2016.

Workers' Remittances

Receipts from workers' remittances declined by 1.2 per cent, year-on-year, to US dollars 567.4 million during November 2016 from US dollars 574.5 million in November 2015. However, cumulative inflows from workers' remittances during the first eleven months of 2016 at US dollars 6,556.9 million, recorded a growth of 3.1 per cent, in comparison to US dollars 6,361.8 million in the corresponding period of 2015.

Financial Flows

Foreign investments in the CSE recorded a net inflow of US dollars 2.0 million in November 2016. Cumulative foreign investments in the CSE during the first eleven months of 2016 recorded a net outflow of US dollars 8.7 million. This included a net outflow of US dollars 10.4 million from the secondary market and an inflow of US dollars 1.7 million to the primary market. As witnessed during October 2016, foreign investments in the government securities market continued to record a net outflow amounting to US dollars 119.2 million in November 2016. On a cumulative basis, the net outflow of foreign investments in the government securities market amounted to US dollars 228.4 million during the first eleven months of the year in comparison to a net outflow of US dollars 1,092.2 million during the corresponding period of 2015. Long term loans to the government increased to US dollars 1,109.7 million on a net basis during the first eleven months of 2016, in comparison to a net inflow of US dollars 210.3 million during the same period of 2015.

Overall BOP Position

During the year up to end November 2016, the overall BOP is estimated to have recorded a deficit of US dollars 635.3 million, in comparison to a deficit of US dollars 1,274.2 million recorded during the corresponding period of 2015.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end November 2016 amounted to US dollars 5.6 billion, equivalent to 3.5 months of imports. Meanwhile, total foreign assets, which include gross official reserves and foreign assets owned by deposit taking corporations, stood at US dollars 7.9 billion, equivalent to 4.9 months of imports.

The rupee, which depreciated by 3.8 per cent against the US dollar in 2016, recorded a further depreciation of 1.0 per cent by 08 March 2017. Reflecting cross currency movements, the rupee also depreciated against the euro by 1.2 per cent, the pound sterling by 0.3 per cent, the Japanese yen by 3.2 per cent, the Canadian dollar by 1.4 per cent, the Australian dollar by 5.6 per cent and the Indian rupee by 2.8 per cent during the year up to 08 March 2017.

Table 3: Summary of External Sector Performance (a)

Category	Nov 2015 US\$ mn	Nov 2016 US\$ mn	Change (%)	Jan- Nov 2015 US\$ mn	Jan-Nov 2016 US\$ mn	Change (%)
Exports	838.4 (b)	809.7	(3.4)	9,726.0 (b)	9,450.7	(2.8)
Imports	1,464.9	1,732.1	18.2	17,289.9	17,584.0	1.7
Trade Balance	-626.5 (b)	-922.4	47.2	-7,563.9 (b)	-8,133.3	7.5
Earnings from Tourism (b)	238.9	286.9	20.1	2,639.0	3,132.8	18.7
Workers' Remittances	574.5	567.4	(1.2)	6,361.8	6,556.9	3.1
Inflows to the CSE (Net) (c)	-0.4	2.0	(560.9)	7.5	-8.7	(216.9)
Inflows to the Government (d)	1,609.4	227.6	(85.9)	4,365.3	4,662.8	6.8
of which,						
Treasury Bills and Bonds	70.1	7.9	(88.7)	1,205.0	1,212.1	0.6
International Sovereign Bonds	1,500.0	-	-	2,150.0	1,500.0	(30.2)
Syndicated Loans	-	-	-	-	700.0	-
Long term Loans (e)	38.7	219.5	466.8	947.3	1,226.5	29.5
Foreign Direct Investment (f)	-	-	-	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) Excluding Syndicated Loans
- (f) 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.