

EXTERNAL SECTOR DEVELOPMENTS AND POLICIES

5.1 Overview

Sri Lanka's external sector performance in 2015 reflected the impact of the changing global economic environment, as well as a number of developments in the domestic economy. On the external front, the spillover effects of global developments, such as the slow pace of growth in advanced and major emerging market economies, normalisation of monetary policy in the US, tightening of financial markets and rising geopolitical tensions had an adverse impact on the performance of the external sector during the year. On the domestic front, increased consumption demand through excessive fiscal expansion, slowdown in FDI inflows, together with capital outflows and policy uncertainties amidst two national elections also exerted pressure on the external sector in 2015.

In the above context, Sri Lanka's external sector showed a subdued performance in 2015, with lower than expected inflows to the current and financial accounts of the Balance of Payments (BOP) and higher foreign exchange outflows. Despite the low level of net foreign inflows, the current account deficit in 2015

broadly remained unchanged at the 2014 level of US dollars 2.0 billion, but declined marginally to 2.4 per cent of GDP. Although the merchandise trade deficit continued to widen in 2015 due to the increase in non-oil imports and the slowdown in export earnings, a substantial increase was largely avoided by the low expenditure on fuel imports. The deficit in the primary income account also widened with increased interest payments during the year. However, the surpluses in the services and secondary income accounts enabled the current account deficit to remain almost unchanged from the previous year's level. The financial account was adversely affected by the decline in non-debt creating inflows, slowdown in inflows to the government and gradual reversal of investments in government securities, due to the expectation of, and the subsequent increase in interest rates in the US. This resulted in the BOP recording an overall deficit of US dollars 1,489 million in 2015. The lackluster performance in the BOP was reflected in the decline in gross official reserves to US dollars 7.3 billion as at end 2015, equivalent to 4.6 months of imports. Meanwhile, the rupee, which depreciated by 2.42 per cent against the US

dollar during the first eight months, depreciated at a higher rate during the last four months of the year following the Central Bank decision to allow greater flexibility in the determination of the exchange rate from early September 2015. During the year, the Sri Lankan rupee depreciated by 9.03 per cent against the US dollar. Greater flexibility in the exchange rate helped stabilise trade and current account deficits towards the end of 2015 although short term capital outflows continued into 2016 as well.

The change in the exchange rate policy in early September was focused on curtailing import demand, maintaining gross official reserves at a healthy level and improving external competitiveness amidst the significant depreciation of several international currencies, including the Chinese yuan and the Indian rupee. In addition, other policy measures, such as the imposition of a maximum Loan to Value ratio and a minimum cash margin requirement of 100 per cent against Letters of Credit for the importation of motor vehicles, introduced in 2015, were also targeted at curtailing the excessive demand for imports. These policy measures, which were complemented by the tightening of monetary policy in early 2016, are expected to strengthen the external sector in 2016. There is a strong need to introduce policies and measures towards enhancing exports and harnessing the existing export potential of the country, and attracting other non-debt creating financial flows, such as foreign direct investments, which are essential to create sustainable improvements in the external sector over the medium term. Meanwhile, in the short term, it is necessary to control spillover effects of excessive fiscal expansion to the BOP, by implementing strong fiscal measures. Such measures will also improve investor confidence on Sri Lanka, in order to attract long term foreign capital to strengthen the external sector.

Table 5.1 Balance of Payments Analytical Presentation (BPM6 Presentation Format)

Item	US\$ million		Rs. million	
	2014 (a)	2015 (b)	2014 (a)	2015 (b)
Current Account (net)	-1,988	-2,009	-259,436	-274,562
Trade Balance	-8,287	-8,430	-1,081,987	-1,146,676
Exports	11,130	10,505	1,453,176	1,425,791
Imports	19,417	18,935	2,535,163	2,572,467
Services (net)	1,880	2,325	245,496	316,170
Receipts	5,605	6,397	731,863	869,634
Payments	3,725	4,072	486,367	553,464
Primary Income (net)	-1,808	-2,097	-236,073	-286,137
Receipts	155	127	20,263	17,253
Payments	1,963	2,224	256,336	303,390
Secondary Income (net)	6,227	6,193	813,128	842,082
Secondary income: credit	7,046	7,007	920,035	952,568
Workers' remittances	7,018	6,980	916,344	948,957
Government transfers	28	27	3,691	3,610
Secondary income: debit	819	814	106,906	110,486
Capital Account (net)	58	46	7,684	6,256
Capital account: credit	73	71	9,586	9,562
Capital account: debit	15	24	1,903	3,306
Current and Capital Account (net)	-1,929	-1,962	-251,752	-268,306
Financial Account (net)	-1,536	-2,271	-200,261	-338,298
Direct Investment: Assets	67	53	8,725	7,236
Direct Investment: Liabilities	894	681	116,721	93,681
Portfolio Investment: Assets	-0.2	0.02	-29	3
Debt securities	-0.2	0.02	-29	3
Portfolio Investment: Liabilities	2,065	689	269,768	102,286
Equity	178	-58	23,275	-7,835
Debt securities	1,887	747	246,492	110,121
Financial Derivatives	-	-	-	-
Other Investment: Assets	973	553	127,197	77,021
Currency and deposits	276	143	36,115	21,127
Trade credit and advances	383	166	50,000	21,866
Other accounts receivable	314	244	41,082	34,028
Other Investment: Liabilities	1,165	1,857	152,107	269,228
Currency and deposits	-292	1,457	-38,152	209,324
Loans	1,713	734	223,475	99,315
Central Bank	-719	-507	-93,904	-68,775
Deposit-taking corporations	1,358	787	177,243	107,301
General government	646	470	84,199	63,951
Other sectors	429	-16	55,937	-3,162
Trade credit and advances	-407	-376	-53,145	-51,067
Other accounts payable	151	41	19,929	11,657
Special Drawing Rights (SDRs)	-	-	-	-
Reserve Assets	1,548	350	202,442	42,637
Monetary gold	9	-39	1,154	-5,156
Special Drawing Rights	-6	-2	-748	16
Reserve position in the IMF	-	-	-	-
Other reserve assets	1,545	391	202,036	47,777
Currency and deposits	496	116	64,720	12,566
Securities	1,049	275	137,316	35,183
Net Errors and Omissions	393	-308	51,492	-69,993
Overall Balance (c)	1,369	-1,489	180,904	-129,654
As a Percentage of GDP				
Trade Balance	-10.4	-10.2		
Goods and Services	-8.0	-7.4		
Current Account	-2.5	-2.4		
Current and Capital Account	-2.4	-2.4		

(a) Revised

(b) Provisional

(c) Refer Table 5.11 for the derivation of overall balance.

Source: Central Bank of Sri Lanka

5.2 External Trade Policies and Institutional Support

The focus of the external trade policy on enhancing Sri Lanka's integration into the global economy continued in 2015. In this respect, the government proposed broad structural changes in 2015 to strengthen the international trade policy framework towards enhancing the prospects and performance of the external sector. Such measures included efforts to change trade laws and regulations, strengthen access to overseas markets through establishing trade agreements and strategic trade promotion, further rationalise trade and tariff policies, and establish a non-aligned foreign policy aimed at encouraging international investments and external trade. While export promotion was considered as the main priority of the external trade policy, certain policy measures were also implemented to rationalise imports.

Measures were taken during the year to strengthen the effective utilisation of existing trade agreements, seeking possibilities for entering into new trade agreements, strengthening market research activities and enhancing marketing and promotional campaigns in overseas markets, to gain access for Sri Lankan products. Bilateral agreements, which promote preferential access to larger markets and improve investment, will be crucial for a small and open economy like Sri Lanka. Therefore, Sri Lanka needs to deepen and extend the existing Free Trade Agreement (FTA) with India, considering the significant competitive advantages associated with proximity, while making greater use of the agreement with Pakistan. Major drawback to the Sri Lankan external trade sector since the suspension of the Generalised System of Preferences Plus (GSP+) facility in 2010 by the European Union (EU) occurred in mid-January 2015, when the EU banned importing

fish from Sri Lanka, suspecting Sri Lanka was not complying with international rules on illegal fishing and employing inadequate control systems in the Sri Lankan fisheries industry. However, considering possible economic gains, the new government decided to reapply for the EU-GSP+ facility and accordingly, a Sub-Committee coordinated by the Department of Commerce (DOC) on the preparation of regaining EU-GSP+ was appointed in March 2015. During the year, series of consultations with the relevant line agencies and ministries responsible for the implementation of the 27 International UN conventions were held, and a draft application, which includes a comprehensive report on the issues raised by the EU side, was prepared. Further discussions were held to negotiate on the EU ban on Sri Lankan fisheries products. During 2015, much progress has been made on both these frontiers and it is expected that Sri Lanka will retrieve the GSP+ by the end of 2016, following its dedication to address human rights issues, which were key prerequisites to regain access to the EU market. Further, steps have been taken to improve the Sri Lankan fishing industry to comply with international standards and requirements specified by the EU, such as a Vessel Monitoring System on the Sri Lankan vessels operating in international waters, in order to stop fishing in prohibited areas. With these efforts, the ban on fish exports of the EU market is expected to be lifted by mid-2016. Meanwhile, the USA renewed its GSP scheme with retroactive effect by signing the "Trade Preferences Extension Act" in June 2015, after almost two years since it expired. Further, exports under the Global System of Trade Preferences (GSTP)¹ have increased substantially in 2015, diversifying exports to the Southern region in the world. Under this scheme, Sri Lanka has exported US dollars 19 million worth of goods in 2014, mainly to Mexico and Peru, which has increased to US dollars 50 million in 2015.

¹ Global System of Trade Preferences (GSTP) is an agreement among developing countries, established in 1989. It is a tariff preferential scheme negotiated under the aegis of the United Nations Conference on Trade and Development (UNCTAD), with a view to increasing South – South trade and economic cooperation.

A satisfactory progress was observed on the utilisation of bilateral trade agreements with Sri Lanka in 2015. The DOC was mainly involved with the continuous evaluation on developments of FTAs, Preferential Trading Arrangements (PTAs) and Comprehensive Economic Partnership Agreements (CEPAs), with countries that have an impact on Sri Lanka's trade. Further, review meetings were conducted to address issues arising from FTAs, PTAs and CEPAs, while Joint Commissions were conducted with China, Egypt, Russia, Malaysia, Turkey, and Kuwait etc.. Also, working on the Trade and Investment Framework Agreement (TIFA) with the USA, and the EU cooperation and conducting awareness campaigns for the business community, were the other important activities of the DOC in 2015. Continuous negotiations, in terms of existing FTAs of Sri Lanka, were vested with the DOC and as a result, Sri Lanka's exports to India, under the India-Sri Lanka Free Trade Agreement (ISFTA) was estimated to improve to the level of US dollars 406 million in 2015, compared to US dollars 354 million in 2014. Exports under the ISFTA comprised approximately 63 per cent of total exports to India in 2015. As an extension to the ISFTA, the proposed Economic and Technological Cooperation Agreement (ETCA) with India would be a crucial reform that the government is planning to introduce towards an improved economic partnership with India. Under the Pakistan-Sri Lanka Free Trade Agreement (PSFTA), Sri Lanka exported goods estimated to worth US dollars 59 million to Pakistan in 2015, which was about 81 per cent of Sri Lanka's total exports to Pakistan. Further, Sri Lanka continued its efforts to expand bilateral trade relations with China through the proposed China-Sri Lanka Free Trade Agreement (CSFTA), which reached the negotiation stage. Another round of negotiations of the proposed CSFTA was held in December 2015, where both nations have negotiated the list of 'highly sensitive products', 'general sensitive

products', and 'normal products' to be incorporated into the agreement. Further negotiations will have to be made mainly on the rules of origin and product list to be incorporated under the proposed CSFTA.

Trade under regional and multilateral agreements also continued in 2015. Under the agreement on South Asian Free Trade Area (SAFTA), Sri Lankan exports were estimated to increase to US dollars 15 million in 2015, in comparison to US dollars 13 million in 2014, due to the increased exports of Black Pepper to India. In 2015, three official level meetings were held to discuss matters relating to the formulation of mechanisms on rules of origin verification, further tariff liberalization through reducing sensitive lists to 100 tariff lines and on finalising an end vision for the SAFTA. During 2015, Sri Lanka successfully participated in 3 sessions of Standing Committee Meetings on the Asia-Pacific Trade Agreement (APTA), where discussions were held on deepening tariff concessions and relaxing rules of origin, and the roadmap for the implementation of the Framework Agreement on Trade Facilitation, Investment and Services. The total value of exports from Sri Lanka under the APTA estimated to be US dollars 119 million during 2015, in comparison to US dollars 120 million in 2014. Bangladesh, China, India, Laos, South Korea, Mongolia and Sri Lanka are the member countries for the APTA, which is the oldest preferential trade agreement among developing countries of the Asia-Pacific region. Among the APTA members, China is the main market for Sri Lanka, accounting for about 76 per cent of exports to those countries. Further, the SAARC Framework Agreement on Trade in Services (SATIS), which was signed during the 16th SAARC Summit held in 2010, as a further step towards expanding the regional trade to the services sector, was in the process of finalising the national schedules of commitments at the 11th meeting of the Expert Group on SATIS, held in 2015.

Global trade had a boost in October 2015 as leaders from 12 Pacific Basin nations, including Brunei, Chile, New Zealand, Singapore, Australia, Canada, Japan, Malaysia, Mexico, Peru, Vietnam and USA, agreed on the Trans-Pacific Partnership (TPP), the largest new trade agreement in 20 years. TPP is a mega-regional accord, encompassing US dollar 28 trillion, which is equivalent to 40 per cent of global GDP and covering trade-related aspects of industry, agriculture, services and investment, as well as environmental and labour issues. Sri Lanka would reap benefits such as, increased trade with other TPP nations, opening up of new markets for Sri Lankan products, developing the Sri Lankan SME sector by participating in regional production and supply chains, and reducing non-tariff barriers to interconnect the Sri Lankan economy to the world, on the entering of this partnership.

Several measures were introduced in 2015 to promote investment in export oriented industries, in order to capture new export markets, expand current export markets and diversify export products while rationalising imports. In this regard, the Export Development Board (EDB) adopted a new strategic approach in developing and promoting the exports of Sri Lanka, with the objective of increasing export earnings to US dollars 20 billion by 2020 and thereby contributing to the development objectives set out by the government. Towards achieving this target, the EDB implemented several programmes in line with its new Strategic Plan 2015 – 2020, aimed at creating a conducive business environment, developing and adapting products and services to meet the international market requirements, providing specialised services to exporters to identify, penetrate, develop and diversify into markets, facilitating and enhancing supply chain efficiency and also promoting export oriented SMEs, especially in the provinces. To extend brand promotion on "Pure Ceylon Cinnamon (PCC)", the

EDB issued licenses to qualified exporters to use the PCC logo on their value added cinnamon exports. Also in August 2015, the EDB had the privilege of hosting the Asian Trade Promotion Forum (ATPF) for the first time in Sri Lanka. Meanwhile, a series of programmes for the development of agriculture, fisheries, industrial sectors and export of services were implemented in 2015. The Sri Lanka Export Credit Insurance Corporation (SLECIC) continued to provide credit insurance coverage for exporters against commercial and political risk in over 160 countries. Insurance facilities provided by the SLECIC during 2015 showed a growth of 9.0 per cent, reaching the total insured to Rs. 27.8 billion, from Rs. 25.5 billion in 2014. In 2015, UAE, USA, UK, Iran and Russia held a share of 47 per cent of total insured business of the SLECIC. In May 2015, the Joint Apparel Association Forum (JAAF) together with the EDB led a delegation to the Brazil International Apparel Sourcing Show 2015 held in Sao Paulo, which is considered as the biggest meeting place of apparel manufactures and buyers, especially from main export destinations of Sri Lanka, such as the USA, EU, East Asia, Australia and New Zealand. Domestically, the Sri Lanka Design Festival (SLDF), organised by the Academy of Design (AOD) for the seventh time with the support of the EDB and JAAF Sri Lanka, was held in November 2015 under the theme 'Design and Source Sri Lanka', highlighting the strengths of the Sri Lankan apparel industry and its design capabilities, towards achieving its position as the fashion and design hub of the South Asian region. At the same time, the JAAF and EDB hosted delegations of buyers, especially from Europe and South America who participated in the SLDF, with the aim of delivering new interests in doing business with the Sri Lankan fashion and design industry.

In August, the Ceylon Chamber of Commerce (CCC), organised the "Sri Lanka Economic Summit 2015", based on the theme "Towards

Exports of US dollars 50 billion”, with the participation of key policy makers and business community. The CCC also worked very closely with the business community and the Ministry of Finance to resolve "Ease of Doing Business Issues". Meanwhile, the National Chamber of Commerce of Sri Lanka (NCCSL) participated in many trade facilitation initiatives locally and overseas during 2015, including “Ayurveda Expo 2015” and the Symposium held for the 5th time in July 2015.

A number of measures were proposed by the government with the intention of strengthening institutional support to promote export oriented industries. Accordingly, the budget 2016 proposed to restructure the BOI, EDB and Sri Lanka Tourism Development Authority (SLTDA), with a view to improve operational efficiency and facilitate investments, while proposing to establish an “Agency for Development” as an interim measure until the restructuring process is completed. To exploit the potential and improve the relative position through export diversification and sustainable export growth, the budget 2016 proposed to form an Export Development Council of Ministers to take high level policy decisions, set up an Export Import Bank (EXIM Bank) to facilitate the external sector, restructure to strengthen the commercial sections of Sri Lankan missions abroad, strengthen the EDB to enhance export promotion further and expand the SLECIC to enhance the export insurance coverage. It was further proposed to establish several new export processing zones, with the responsibility of management to be given to private sector management companies, while creating new specialised agricultural and fishery zones in the country. Further, the private sector is being encouraged to establish a "Gem Emporium" and duty free gem and jewellery shops at the airport, to harness the benefits of increased tourism interest in the gem and jewellery industry. In order to strengthen the international trade policy framework, the government plans to incorporate

an International Trade Agency. Further, proposals to explore the possibility of entering into free trade agreements with countries such as the USA, South Korea, Singapore, Australia, South Africa and Japan are in the pipeline.

During 2015, trade and tariff policies were proposed to rationalise and enhance the integration of trade promotion in the national development framework. Accordingly, the cess on exports of tea, rubber, coconut and cinnamon in its primary form continued to be maintained, in order to promote value addition, while it was proposed to remove the cess on exports of pepper, cloves and nutmeg. Further, the budget 2016 proposed to grant concessional credit facilities, release government land on lease for the cultivation of spices, allocate funds to strengthen agriculture research facilities and encourage re-exports by liberalising imports, including tea, within a regulatory framework, with the aim of developing Sri Lanka as a tea hub.

Several measures were introduced in the budget 2016 to rationalise expenditure on imports. It was proposed to introduce cess on imported jewellery, in order to protect local jewellery craftsmen and reduce import duties on construction related machinery and instruments, to boost the construction industry, while revising import taxes on garments, shoes and electronic items, in order to evolve Sri Lanka as a shopping paradise for tourists. One notable regulation issued by the Department of Import and Export Control in 2015 was the ban on importing Glyphosate, citing adverse impacts caused to the environment. The amendment of several trade related rules and regulations, including the Import and Exports Control Act, to ensure a more efficient import export system, was also proposed. Considering the diverse issues faced by investors at the time of importation of materials, equipment and other goods, it has been proposed to establish a "one-stop-shop" concept at the Sri Lanka Customs,

which provides all the necessary permissions, clearances and approvals at a single window platform. Accordingly, in January 2016, Sri Lanka Customs initiated operations of the Single Window System, with 15 border regulatory agencies linked to the system to facilitate easy approvals.

Sri Lanka continued to engage in multilateral initiatives of the World Trade Organisation (WTO) during 2015. The role of the WTO as the institution responsible to create, implement and monitor the rule-based multilateral trading system has been very much in focus during the negotiations of the 10th Ministerial Conference held in December 2015 in Kenya. Sri Lanka, together with other groups of developing countries, played an active role, particularly in addressing trade-related development needs as a small economy. Although there was no consensus in the continuation of negotiations on the remainder of issues of the Doha Development Agenda (DDA), the majority of developing countries have emphasised the importance of the continuation of the negotiations under the DDA. As a result of this, developed countries are expected to eliminate the remaining agriculture export subsidies from the date of the adoption of the Ministerial decision, while developing countries are expected to eliminate export subsidies by the end of 2018. According to Article 27 of the Ministerial Declaration, Sri Lanka as a small and vulnerable economy, has the opportunity of seeking technical and capacity development assistance through the WTO for its trade-related development programmes. Further, following the decision made at the 9th Ministerial Conference held in Bali in 2013, the adoption of the Trade Facilitation Agreement (TFA) by the WTO members was continued, and as of December 2015, 68 countries have ratified the agreement. It will come into effect legally once two-third of the members (108 members) confirmed the ratification. Sri Lanka actively pursued the trade facilitation

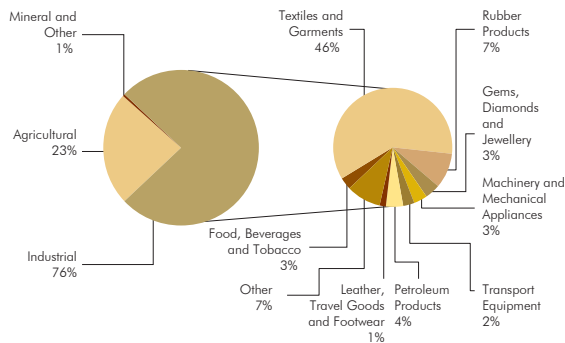
negotiations and submitted the draft agreement to the Cabinet of Ministers for approval. The complete implementation of the TFA is expected to reduce trade transaction costs substantially, thereby facilitating improved competitiveness of both exports and imports.

The global and domestic challenges on international trade continued in 2015, especially with the economic slowdown in China, and these challenges are likely to continue in 2016 as well. Concessional access to most of the markets will be limited, as Sri Lanka is approaching an upper middle-income country stage with a higher per capita income. Therefore, institutional support will be crucial to enable exporters to withstand intensifying global competition and access new markets and technologies, while preserving the competitiveness of existing markets. Hence, the external trade policy is to be further directed to promote high value added products, as it is high time for Sri Lanka to rethink its export basket and not be limited to traditional exports, but to diversify into industries, especially hi-tech products. The services sector can also perform well along with the tourism industry and knowledge based services sector, with proper strategies and institutional support. Further, continued geopolitical issues in some of the main international markets, posed challenges to Sri Lanka's export sector, demanding timely strategies to penetrate into other markets.

5.3 Trade in Goods, Trade Balance, Terms of Trade and Direction of Trade

5.3.1 Export Performance

Earnings from exports contracted in 2015, largely reflecting the downward movement of international commodity prices and the slower growth in large economies and Sri Lanka's major export destinations. Accordingly, earnings from exports, which grew at 7.1 per cent in 2014,

Chart 5.1 Exports by Commodities - 2015

declined by 5.6 per cent, year-on-year, in 2015, to US dollars 10,505 million, led by the drop in both agricultural as well as industrial exports.

Export earnings from all major categories of agricultural products, except spices and coconut kernel products, declined largely, reflecting lower demand and the decline in global prices. Accordingly, earnings from agricultural exports, which account for 23.6 per cent of total exports, declined significantly by 11.2 per cent to US dollars 2,481 million in 2015, led by lower earnings from tea and seafood exports. Export earnings from tea, the second largest export commodity in Sri Lanka, which accounts for about 13 per cent of total export earnings, declined significantly by 17.7 per cent to US dollars 1,340 million, recording the lowest value for the last five years. Geopolitical developments, currency depreciations in importer countries and the substantial decline in revenue from oil, resulted in a significant decline in demand for Ceylon tea from major buyers such as Russia and some countries in the Middle East. Accordingly, the average export price of tea declined significantly by 12.2 per cent, to US dollars 4.37 per kilogram in 2015, from US dollars 4.97 per kilogram recorded in 2014, while the export volume also declined by 6.2 per cent to 307 million kilogram. Meanwhile, earnings from seafood exports declined by 35.5 per cent, year-on-year, to US dollars 163 million in 2015, mainly due to the significant

decline recorded in seafood exports by 75.0 per cent to the EU market, with the restrictions on market access, with effect from mid-January 2015. However, earnings from coconut kernel products increased by 3.5 per cent due to more than a 100 per cent growth recorded in coconut oil exports, despite the decline recorded in earnings from coconut exports. As a result of a bumper harvest in main export crops i.e. pepper and cloves, earnings from exports of spices increased significantly by 42.7 per cent, to US dollars 377 million in 2015. However, export earnings from cinnamon declined marginally by 0.2 per cent, due to the decline recorded in export volumes, in spite of the increase recorded in price levels.

Rubber, non-kernel coconut products, vegetables and unmanufactured tobacco also contributed considerably to the decline in earnings from agricultural exports during the year. Earnings from rubber exports, which declined continuously from 2012, weakened further in 2015, reflecting the impact of continuous reduction in global rubber prices, led by lower global demand. Consequently, export earnings from rubber declined by 42.3 per cent, to US dollars 26 million in 2015, led by the reductions in both export volumes and prices. Along with the 36.4 per cent decline in export volume, the average export price of rubber also declined markedly, from US dollars 2.78 per kilogram in 2014, to US dollars 2.52 per kilogram in 2015. Earnings from exports of coconut products declined moderately by 1.3 per cent in 2015 to US dollars 352 million, due to the lower performance in exports of non-kernel products, such as fiber and yarn. Further, export earnings from vegetables, unmanufactured tobacco and minor agricultural products declined by 24.0 per cent, 23.1 per cent and 2.9 per cent, respectively.

In line with the decline in commodity prices in the international market and lower global demand, earnings from industrial exports contracted by 3.5 per cent to US dollars 7,976

Table 5.2

Composition of Exports

Category	2014		2015 (a)		Change in Value US\$ million	Y-o-Y Change %	Contribution to Change %
	Value US\$ million	Share %	Value US\$ million	Share %			
Agricultural Exports	2,793.9	25.1	2,481.5	23.6	-312.4	-11.2	50.0
Tea	1,628.3	14.6	1,340.5	12.8	-287.8	-17.7	46.0
Rubber	45.3	0.4	26.1	0.2	-19.2	-42.3	3.1
Coconut	356.4	3.2	351.7	3.3	-4.6	-1.3	0.7
Spices	264.6	2.4	377.4	3.6	112.9	42.7	-18.1
Vegetables	40.1	0.4	30.5	0.3	-9.6	-24.0	1.5
Unmanufactured Tobacco	41.3	0.4	31.8	0.3	-9.5	-23.1	1.5
Minor Agricultural Products	165.2	1.5	160.4	1.5	-4.9	-2.9	0.8
Seafood	252.7	2.3	163.1	1.6	-89.7	-35.5	14.3
Industrial Exports	8,262.0	74.2	7,975.6	75.9	-286.5	-3.5	45.8
Textiles and Garments	4,929.9	44.3	4,820.2	45.9	-109.8	-2.2	17.6
Rubber Products	889.8	8.0	761.2	7.2	-128.6	-14.5	20.6
Petroleum Products	338.0	3.0	373.9	3.6	35.9	10.6	-5.8
Gems, Diamonds and Jewellery	393.6	3.5	331.7	3.2	-61.9	-15.7	9.9
Food, Beverages and Tobacco	289.3	2.6	265.2	2.5	-24.0	-8.3	3.8
Machinery and Mechanical Appliances	342.9	3.1	293.8	2.8	-49.1	-14.3	7.9
Printing Industry Products	52.4	0.5	45.7	0.4	-6.7	-12.8	1.1
Transport Equipment	151.8	1.4	243.7	2.3	91.9	60.5	-14.7
Leather, Travel Goods and Footwear	138.9	1.2	135.7	1.3	-3.2	-2.3	0.5
Ceramic Products	41.3	0.4	35.2	0.3	-6.2	-14.9	1.0
Other Industrial Exports	694.1	6.2	669.4	6.4	-24.7	-3.6	4.0
Mineral Exports	59.5	0.5	28.4	0.3	-31.1	-52.3	5.0
Unclassified Exports	14.7	0.1	19.5	0.2	4.8	32.4	-0.8
Total Exports (b)(c)	11,130.1	100.0	10,504.9	100.0	-625.1	-5.6	100.0
Annual Average Exchange Rate (d)	130.56		135.94				

(a) Provisional

(b) Adjusted

(c) Excludes re-exports

(d) Rupee/US dollar exchange rate

Sources: Ceylon Petroleum Corporation and Other Exporters of Petroleum National Gem and Jewellery Authority Sri Lanka Customs Central Bank of Sri Lanka

million in 2015. The lower performance recorded in textiles and garments, rubber products, gems, diamonds and jewellery, and machinery and mechanical appliances, mainly contributed for this decline. Export earnings from textiles and garments, which account for around 46 per cent of the total export earnings, declined by 2.2 per cent, mainly due to the 2.7 per cent decline recorded in garment exports, despite the 4.5 per cent and 13.4 per cent growth, respectively, recorded in textiles and other made-up textile articles. Export earnings from garments to the EU market declined significantly by 12.5 per cent in 2015, largely contributing to the decline in earnings from garment exports, despite the 6.0 per cent

and 4.6 per cent growth recorded in the earnings from garment exports to the USA and other non-traditional markets, respectively. In line with the noticeable drop recorded in international rubber prices, earnings from rubber products exports declined by 14.5 per cent, to US dollars 761 million in 2015, reflecting declines in almost every sub category in rubber products, such as rubber tires and surgical and other gloves etc.. Export earnings from gems, diamonds and jewellery declined by 15.7 per cent, to US dollars 332 million in 2015, along with decreases in gems, diamonds and jewellery. Accordingly, earnings from gem exports declined by 5.2 per cent, while export earnings from diamond and jewellery declined by 25.2 per

cent and 13.7 per cent, respectively. Meanwhile, the lower performance on export earnings from machinery and mechanical appliances, food, beverages and tobacco, chemical products, wood and paper products, printing industry products, leather, travel goods and footwear, plastics and articles thereof, base metals and articles and ceramics products, contributed to the overall decline in industrial exports.

Export earnings from transport equipment, petroleum products and animal fodder, under industrial exports, increased during the year.

In 2015, export earnings from transport equipment increased significantly by 60.5 per cent to US dollars 244 million, as a result of earnings from the export of ships, boats and floating structures, as well as road vehicles. Amidst the rising competition from regional players, such as India and Singapore, export earnings from petroleum products, which mainly comprise bunker and aviation fuel, also increased by 10.6 per cent, due to the considerably large increase in the export volume, despite the 51.6 per cent decline in prices. Export earnings from animal fodder also increased by 16.5 per cent in 2015.

5.3.2 Import Performance

Expenditure on imports declined in 2015, largely reflecting the downward movement of international commodity prices, especially crude oil, and policies introduced by the government and the Central Bank to rationalise imports. Accordingly, in 2015, the expenditure on imports declined moderately by 2.5 per cent to US dollars 18,935 million, compared to the US dollars 19,417 million in 2014. Meanwhile, expenditure on non-fuel imports increased considerably by 9.6 per cent to US dollars 16,235 million, indicating the impact of the decline in global oil prices. The expenditure on non-fuel imports increased mainly due to the significant increase recorded in the importation of personal motor vehicles, with the

reduction of import tariff for selected motor vehicles, as well as the depreciation of the Japanese yen.

Expenditure on intermediate goods imports declined significantly by 15.4 per cent to US dollars 9,638 million in 2015, compared to US dollars 11,398 million in 2014, reflecting the substantial decline in expenditure on fuel imports. The fuel import bill in 2015 declined by US dollars 1,898 million to US dollars 2,700 million, recording a 41.3 per cent decline over the previous year, due to the drop in both import prices and volumes. In line with the substantial reduction in international oil prices, the average import price of crude oil declined by 47.6 per cent to US dollars 54.80 per barrel in 2015, from US dollars 104.53 per barrel recorded in 2014. Meanwhile, the volume of crude oil and refined petroleum products imports declined by 2.0 per cent and 1.9 per cent, respectively, in 2015, due to the shutting down of the refinery for maintenance purposes during March and April 2015 and the substantial reduction in thermal power generation. Accordingly, fuel imports as a share of total imports declined to 14.3 per cent in 2015, when compared to 23.7 per cent recorded in the previous year. Meanwhile, the import volume of coal increased by 17.1 per cent, leading to a marginal increase of expenditure on coal imports to US dollars 159 million in 2015, mainly due to the increase recorded in coal power generation. In line with the reduction recorded in garments exports,

Chart 5.2 Imports by Commodities - 2015

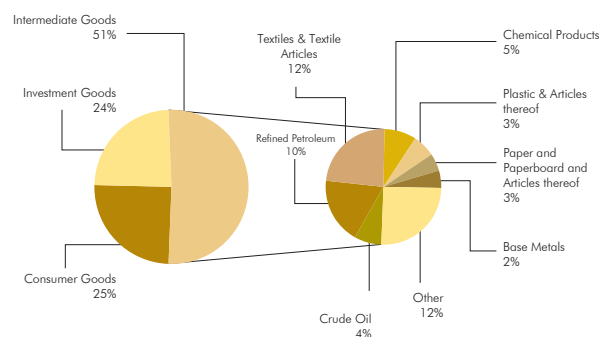


Table 5.3

Composition of Imports

Category	2014		2015 (a)		Change in Value US\$ million	Y-o-Y Change %	Contribution to Change %
	Value US\$ million	Share %	Value US\$ million	Share %			
Consumer Goods	3,852.5	19.8	4,713.5	24.9	861.0	22.3	-178.6
Food and Beverages	1,633.7	8.4	1,627.8	8.6	-5.9	-0.4	1.2
Rice	281.7	1.5	135.1	0.7	-146.5	-52.0	30.4
Sugar and Sugar Confectionery	257.1	1.3	254.4	1.3	-2.7	-1.1	0.6
Dairy Products	339.4	1.7	250.9	1.3	-88.5	-26.1	18.3
Lentils	121.2	0.6	148.0	0.8	26.8	22.1	-5.6
Other	634.4	3.3	839.4	4.4	205.0	32.3	-42.5
Non-Food Consumer Goods	2,218.8	11.4	3,085.7	16.3	866.9	39.1	-179.8
Vehicles	896.7	4.6	1,359.6	7.2	463.0	51.6	-96.0
Medical and Pharmaceuticals	380.5	2.0	459.8	2.4	79.3	20.8	-16.4
Home Appliances	156.4	0.8	221.0	1.2	64.6	41.3	-13.4
Clothing and Accessories	282.7	1.5	390.1	2.1	107.4	38.0	-22.3
Other	502.5	2.6	655.0	3.5	152.5	30.4	-31.6
Intermediate Goods	11,397.7	58.7	9,638.2	50.9	-1,759.5	-15.4	364.9
Fuel	4,597.3	23.7	2,699.6	14.3	-1,897.7	-41.3	393.6
Textiles and Textile Articles	2,327.6	12.0	2,296.2	12.1	-31.3	-1.3	6.5
Diamonds and Precious stones and Metals	175.4	0.9	161.5	0.9	-13.9	-7.9	2.9
Chemical Products	808.2	4.2	870.3	4.6	62.1	7.7	-12.9
Wheat and Maize	404.7	2.1	357.2	1.9	-47.5	-11.7	9.9
Fertiliser	272.4	1.4	289.6	1.5	17.2	6.3	-3.6
Other Intermediate Goods	2,812.0	14.5	2,963.7	15.7	151.7	5.4	-31.5
Investment Goods	4,152.2	21.4	4,567.0	24.1	414.8	10.0	-86.0
Building Materials	1,308.9	6.7	1,352.0	7.1	43.1	3.3	-8.9
Transport Equipment	707.3	3.6	930.9	4.9	223.7	31.6	-46.4
Machinery and Equipment	2,131.0	11.0	2,278.1	12.0	147.1	6.9	-30.5
Other Investment Goods	4.9	...	5.9	...	1.0	20.6	-0.2
Unclassified Imports	14.4	0.1	15.9	0.1	1.5	10.3	-0.3
Total Imports (b) (c)	19,416.8	100.0	18,934.6	100.0	-482.2	-2.5	100.0
Annual Average Exchange Rate (d)	130.56		135.94				

(a) Provisional
(b) Adjusted
(c) Excludes re-imports
(d) Rupee/US dollar exchange rate

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

import expenditure on textiles and textile articles also showed a decline by 1.3 per cent to US dollars 2,296 million, compared to US dollars 2,328 million in 2014. However, rubber and articles made of rubber, chemical products, vehicle and machinery parts, fertiliser, and unmanufactured tobacco, classified under intermediate goods, contributed positively towards increased import expenditure in 2015.

Despite the marginal reduction recorded in the expenditure on food and beverages, import expenditure on consumer goods increased considerably due to the significant increase in the importation of consumer durables. In 2015, expenditure on consumer goods increased significantly by 22.3 per cent to US dollars 4,713

million, mainly due to the 39.1 per cent growth to US dollars 3,086 million recorded in the expenditure on consumer durables, led by higher expenditure on importing personal motor vehicles. Expenditure on the importation of motor cars increased significantly by 47.6 per cent, contributing towards increasing the vehicle import expenditure by 51.6 per cent to US dollars 1,360 million in 2015, from US dollars 897 million in 2014. The continuation of the concessionary motor vehicle permits for government employees, reduction of taxes on the importation of motor vehicles, especially less than 1000 CC engine capacity and the depreciation of the Japanese Yen, caused the increase in consumer durable imports, especially motor vehicles. The significant domestic demand for imported goods was reflected in the increase in

Table 5.4 Volume of Major Imports

Item	MT '000				
	2011	2012	2013	2014	2015 (a)
Rice	28	36	23	600	286
1st Quarter	8	15	9	6	176
2nd Quarter	2	7	6	102	91
3rd Quarter	9	10	4	145	9
4th Quarter	9	4	4	348	9
Wheat (b)	1,242	1,084	895	1,179	1,208
1st Quarter	322	353	197	271	242
2nd Quarter	455	235	326	324	342
3rd Quarter	254	291	170	291	373
4th Quarter	211	205	201	292	251
Sugar	606	569	548	520	624
1st Quarter	163	158	126	131	169
2nd Quarter	170	135	175	162	161
3rd Quarter	124	114	118	152	156
4th Quarter	149	162	129	75	137
Crude Oil (b)	2,070	1,486	1,743	1,824	1,763
1st Quarter	557	558	482	548	369
2nd Quarter	555	413	545	365	355
3rd Quarter	410	137	315	462	472
4th Quarter	547	379	401	449	567
Refined Petroleum (b)	3,501	3,961	2,907	3,385	3,321
1st Quarter	702	1,036	673	970	799
2nd Quarter	807	903	756	762	952
3rd Quarter	1,022	997	791	1,006	744
4th Quarter	970	1,025	687	647	826
Fertiliser	801	640	600	765	873
1st Quarter	131	129	61	202	163
2nd Quarter	207	176	139	190	244
3rd Quarter	266	226	187	95	189
4th Quarter	197	108	214	277	277

(a) Provisional
(b) Adjusted

Sources: Ceylon Petroleum Corporation
Lanka IOC PLC
Prima Ceylon Limited
Serendib Flour Mills (Pvt) Ltd
Sri Lanka Customs
Central Bank of Sri Lanka

import expenditure on clothing and accessories (38.0 per cent), telecommunication devices (60.3 per cent), medical and pharmaceutical products (20.8 per cent), and home appliances (41.3 per cent) on a year-on-year basis, in 2015. In addition, import expenditure on vegetables increased by 39.6 per cent, due to the increase recorded in the importation of major categories such as lentils, onions and leguminous vegetables. Meanwhile, increases of import expenditure were also recorded in seafood (53.4 per cent), oils and fats (66.5 per cent), spices (15.4 per cent), fruits (30.5 per cent) and beverages (26.1 per cent), during the year. However, expenditure on rice imports dropped to US dollars 135 million in 2015, compared to US dollars 282 million in 2014. Rice imports, which recorded a significant growth

since April 2014, started to decline from May 2015, due to the increase in the import tariff, consequent to the ample supply of rice in the local market due to the bumper paddy harvest recorded in both the Yala and Maha seasons in 2015. Further, import expenditure on dairy products declined by 26.1 per cent in 2015, mainly due to the decline recorded in the expenditure on milk powder imports, owing to the significant reduction in the average imported price of milk powder, despite the large increase in the import volume.

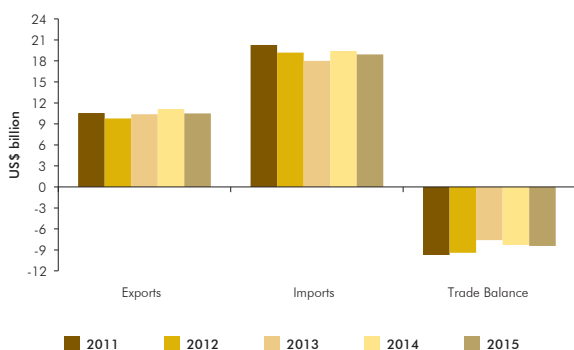
Import expenditure on investment goods increased by 10.0 per cent to US dollars 4,567 million in 2015, reflecting increases in all sub categories. However, the largest contribution for this increase came from transport equipment, followed by machinery and equipment. Import expenditure on transport equipment increased significantly by 31.6 per cent to US dollars 931 million in 2015, mainly due to higher imports of road vehicles, particularly, auto trishaws, lorries, commercial cabs and agricultural tractors. Import expenditure on machinery and equipment, which mainly comprise engineering equipment, electronic equipment, telecommunication devices and office machinery, increased by 6.9 per cent to US dollars 2,278 million in 2015. Expenditure on the import of building materials, which mainly comprise cement, iron and steel, aluminium articles and mineral products, increased by 3.3 per cent in 2015 to US dollars 1,352 million, led by the 19.4 per cent growth recorded in the expenditure on articles of iron and steel over the previous year.

5.3.3 Trade Balance

The deficit in the trade balance, which began to expand from the third quarter of 2014, moderated its growth momentum during mid-2015 and recorded a marginal expansion. The lower reduction of expenditure on imports, relative to the higher decline in exports, contributed to the expansion in the trade deficit in 2015. Accordingly, the trade deficit expanded marginally by 1.7 per cent to US dollars 8,430 million in 2015, from the

Chart 5.3

Exports, Imports and Trade Balance



US dollars 8,287 million recorded in 2014. However, as a per cent of GDP, the deficit in the trade balance decreased to 10.2 per cent in 2015, from 10.4 per cent in 2014.

5.3.4 Terms of Trade

Significantly large decline recorded in import prices led by petroleum, in comparison to the reduction in export prices, led the terms of trade to improve by 2.3 per cent in 2015. Accordingly, the terms of trade index increased to 99.9 index points in 2015 from 97.6 index points recorded in 2014 reflecting 11.8 per cent decline in the import price index compared to 9.8 per cent decline in the export price index.

Export prices dropped in 2015 reflecting the decline in prices of all major categories. The export price index, pertaining to agricultural exports, declined by 4.1 per cent in 2015, along with the decline in the export prices of tea, rubber and seafood. The export price index of tea declined considerably by 11.2 per cent in 2015, mainly due to the lower demand for Ceylon tea from Russia and the Middle East. Meanwhile, the average export price index of rubber and seafood declined by 11.3 per cent and 5.1 per cent, respectively. The export price index pertaining to industrial products also declined by 10.9 per cent in 2015, mainly due to the 50.9 per cent drop recorded in the export price index of petroleum products. However, the export

price indices of transport equipment, ceramic products and leather, travel goods and footwear, categorised under industrial exports, and coconut kernel products, minor agricultural products and spices, categorised under agricultural exports, increased during the year.

The import price index declined significantly in 2015, led by the significant decline in fuel prices. The import price index, pertaining to intermediate goods, declined considerably by 19.2 per cent in 2015, mainly due to the 40.7 per cent decline of the average import price index of fuel, reflecting the lower global oil prices that prevailed during the year. Accordingly, the average import price index of fuel declined to 76.2 index points in 2015, compared to the 128.4 index points in the previous year. The import price indices of all categories in the intermediate goods, except diamonds, precious stones and metals import price index, declined in 2015. Reflecting the price decline in machinery and equipment, building materials and transport equipment, the import price index of investment goods declined by 3.2 per cent in 2015. In line with the decline in prices of raw materials in the international market, the import price index of building materials declined by 5.8 per cent. Further, the significant depreciation of the Japanese yen against the US dollar, contributed to the decline in the price index of transport equipment. Meanwhile, the import

Chart 5.4

Terms of Trade and Trade Indices

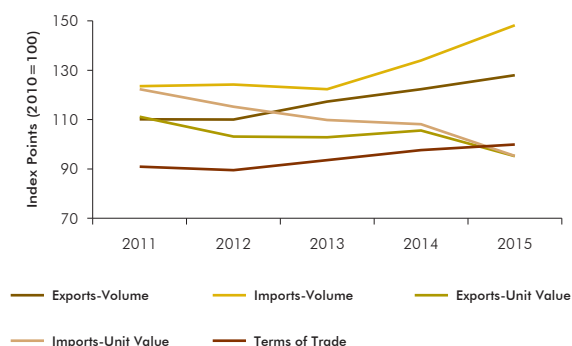


Table 5.5

Trade Indices (a)

Category	Value Index			Volume Index			Unit Value Index			
	2014	2015 (b)	Y-o-Y Change %	2014	2015 (b)	Y-o-Y Change %	2014	2015 (b)	Y-o-Y Change %	
	2010 = 100									
EXPORTS										
Agricultural Exports	121.2	107.6	-11.2	103.2	95.6	-7.4	117.5	112.6	-4.1	
Tea	113.1	93.1	-17.7	98.5	91.3	-7.3	114.9	102.0	-11.2	
Rubber	26.2	15.1	-42.3	32.3	21.0	-34.9	81.0	71.8	-11.3	
Coconut	215.1	212.3	-1.3	170.7	159.4	-6.6	126.0	133.2	5.7	
Spices	127.7	182.2	42.7	85.8	118.3	37.8	148.8	154.0	3.5	
Minor Agricultural Products	231.4	224.6	-2.9	232.2	205.3	-11.6	99.7	109.4	9.7	
Industrial Exports	135.6	130.9	-3.5	133.2	144.4	8.4	101.8	90.6	-10.9	
Textiles and Garments	147.0	143.7	-2.2	128.2	126.4	-1.4	114.7	113.7	-0.9	
Petroleum Products	128.4	142.1	10.6	92.6	208.6	125.4	138.7	68.1	-50.9	
Rubber Products	159.8	136.7	-14.5	108.1	96.9	-10.4	147.9	141.1	-4.6	
Mineral Exports	245.4	117.2	-52.3	158.6	82.4	-48.1	154.7	142.2	-8.1	
Total Exports	129.1	121.8	-5.6	122.3	128.0	4.6	105.5	95.2	-9.8	
IMPORTS										
Consumer Goods	155.7	190.5	22.3	143.3	177.9	24.1	108.6	107.1	-1.4	
Food and Beverages	123.5	123.1	-0.4	125.8	128.1	1.9	98.2	96.0	-2.2	
Non-Food Consumer Goods	192.7	268.0	39.1	163.5	235.0	43.7	117.9	114.0	-3.2	
Intermediate Goods	141.6	119.8	-15.4	122.9	128.7	4.7	115.2	93.1	-19.2	
Fuel	151.2	88.8	-41.3	117.7	116.6	-1.0	128.4	76.2	-40.7	
Fertiliser	113.4	120.6	6.3	112.6	129.5	15.1	100.8	93.1	-7.6	
Chemical Products	155.4	167.4	7.7	138.3	155.6	12.5	112.4	107.6	-4.3	
Wheat and Maize	152.5	134.6	-11.7	123.5	121.3	-1.7	123.5	110.9	-10.2	
Textiles and Textile Articles	128.7	126.9	-1.3	115.8	120.4	4.0	111.1	105.4	-5.2	
Plastics and Articles Thereof	143.7	145.5	1.2	131.1	142.6	8.8	109.6	102.0	-6.9	
Diamonds and Precious Metals	46.5	42.8	-7.9	57.7	49.1	-14.9	80.5	87.1	8.1	
Investment Goods	150.7	165.8	10.0	158.2	179.7	13.6	95.3	92.2	-3.2	
Building Materials	159.3	164.5	3.3	153.0	167.8	9.7	104.1	98.1	-5.8	
Transport Equipment	119.4	157.1	31.6	114.4	156.5	36.8	104.3	100.4	-3.8	
Machinery and Equipment	159.3	170.3	6.9	180.7	197.3	9.2	88.2	86.3	-2.1	
Other Investment Goods	147.9	178.4	20.6	162.2	184.6	13.8	91.2	96.7	6.0	
Total Imports	144.8	141.2	-2.5	134.0	148.2	10.6	108.1	95.3	-11.8	
Terms of Trade							97.6	99.9	2.3	
(a) In terms of US dollars							Sources: Ceylon Petroleum Corporation and Other Exporters of Petroleum			
(b) Provisional							Lanka IOC PLC			
							National Gem and Jewellery Authority			
							Sri Lanka Customs			
							Central Bank of Sri Lanka			

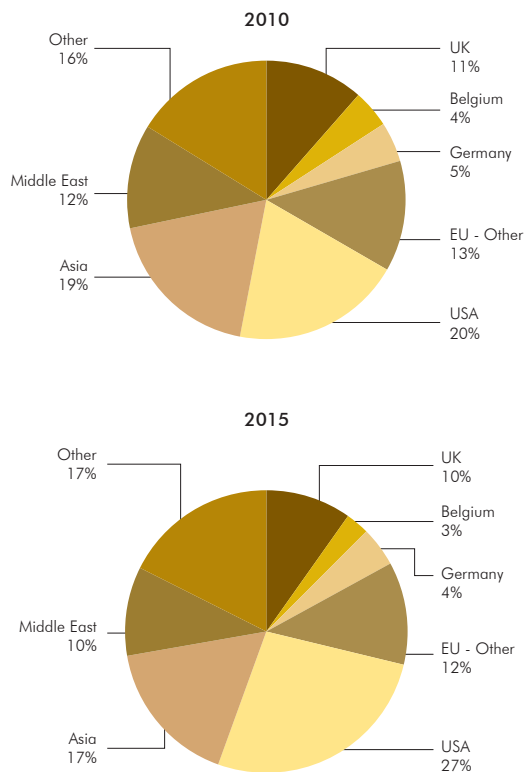
price index of food and beverages, and consumer durables declined by 2.2 per cent and 3.2 per cent, respectively, leading to a 1.4 per cent decline in the import price index for consumer goods.

5.3.5 Direction of Trade

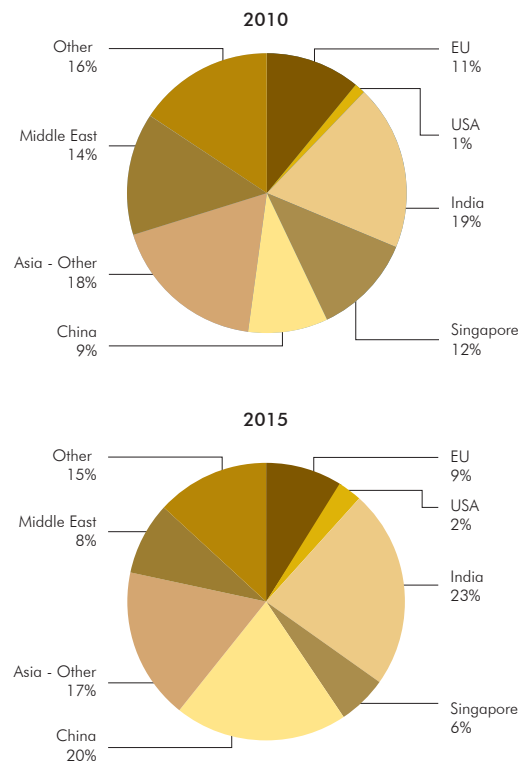
The Western countries continued to be the main destination for Sri Lankan exports in 2015, while the Asian countries dominated Sri Lanka's imports. The USA and the UK remained the largest export destination countries, while India, followed by China and Japan, as the foremost import-originating countries. India, China and the USA continued to be the leading trade partners of Sri Lanka recording more

than US dollars 3 billion trade with each country in 2015. In addition, the UK, Japan, UAE and Singapore were the other trading partners with Sri Lanka that had trade amounting to more than US dollars 1 billion each in 2015. Total trade with India, China, Japan and the USA increased in 2015, compared to the previous year, while trade with Russia and some countries in the Middle East and the EU declined.

The USA remained as a key buyer from Sri Lanka and the share of total exports to the USA increased to around 27 per cent in 2015, compared to 25 per cent in the previous year. In 2015, total exports to the USA increased by 2.9 per cent to US dollars 2,810 million, while garment exports to the

Chart 5.5 Exports by Destination

USA which amounted to 46.3 per cent of total garment exports, increased by 6.0 per cent to US dollars 2,110 million, surpassing the EU after 2007. Despite the significant decline recorded in seafood exports to the EU market, the UK continued to be the second largest export destination in 2015, accounting for 9.8 per cent of total exports. Garments and rubber products were the main export items which accounted for 79.2 per cent and 2.9 per cent, respectively, of total export to UK in 2015. Total exports to the UK declined by 7.8 per cent to US dollars 1,029 million in 2015, mainly due to the decline recorded in garment exports followed by rubber product and seafood exports. In 2015, total exports to India which comprise 6.1 per cent of total exports, increased by 3.0 per cent, to US dollars 643 million, compared to US dollars 625 million in 2014, largely driven by exports of spices, transport equipment and animal fodder. As the third largest exporter of Sri Lanka, India was the main

Chart 5.6 Imports by Origin

buyer of spices, minor agricultural products and animal fodder, while the second largest buyer of transport equipment exported from Sri Lanka in 2015. China became a major buyer during the year, raising its position up to the sixth largest export destination from the thirteenth position in the previous year, owing to the significant growth recorded in transport equipment, garments and tea exports.

India continued to be the largest source of imports with a share of 23 per cent in total imports in 2015. Although total expenditure on imports declined by 2.5 per cent in 2015, imports from India increased by 6.1 per cent to US dollars 4,268 million, mainly driven by the significant increase in the importation of motor vehicles for personal use and investment purposes, due to the reduction of import taxes on motor vehicles, especially for less than 1,000 CC small vehicles by the interim budget presented in January 2015. Accordingly, the

importation of cars, motor cycles and trishaws from India increased by 565.6 per cent, 15.5 per cent and 56.3 per cent, respectively, in 2015. However, petroleum product imports which comprise the largest portion of import expenditure from India, declined significantly by 20.3 per cent in 2015, due the impact of lower oil prices. Meanwhile, imports from China, which account for around 20 per cent of imports, increased by 6.3 per cent to US dollars 3,712 million in 2015, led by the imports of base metal, machinery and equipment, building materials, fertiliser, seafood and textiles and textile articles. Imports from Japan increased significantly by 47.6 per cent to US dollars 1,389 million in 2015, mainly due to the large increase recorded in vehicle imports for personal use and investment purposes, the significant depreciation of the Japanese yen and the changes in import tariff structures in Sri Lanka. Japan, the fifth largest importer since 2012, raised its position up to third largest importer of Sri Lanka in 2015, surpassing the UAE and Singapore.

5.4 Current and Capital Account

5.4.1 Trade in Services

With the satisfactory performance in travel, transportation and telecommunications, computer and information services sub sectors, the services account registered a surplus in 2015. Despite the marginal increase in the services account during the first half of 2015 due to the slowdown in sea and port related transportation activities, the accelerated growth in the export of services during the second half of the year, resulted in the overall surplus of the services account to increase by 23.7 per cent to US dollars 2,325 million in 2015, compared to that of 2014.

Transport services

Transport activities continued to support the expansion in the services account in 2015. In spite of the slowdown in sea and airfreight transportation with the deceleration in exports,

Table 5.6 Current and Capital Account
(BPM6 Presentation Format)

Item	US\$ million					
	2014 (a)			2015 (b)		
	Credit	Debit	Net	Credit	Debit	Net
Goods and Services	16,735	23,142	-6,407	16,902	23,006	-6,105
Goods	11,130	19,417	-8,287	10,505	18,935	-8,430
General merchandise	11,130	19,405	-8,275	10,505	18,892	-8,387
Non-monetary gold	-	12	-12	-	42	-42
Services	5,605	3,725	1,880	6,397	4,072	2,325
Transport	1,923	1,462	462	2,105	1,579	526
Sea transport	969	722	246	997	762	234
Freight	969	722	246	997	762	234
Air transport	954	739	215	1,108	816	292
Passenger	847	659	188	997	732	266
Freight	108	80	27	111	85	26
Travel (c)	2,431	1,263	1,169	2,981	1,420	1,561
Construction	58	29	29	60	30	30
Insurance and pension services	115	90	26	119	92	27
Financial services	256	350	-94	254	380	-126
Telecommunications and computer services	748	398	350	805	429	375
Telecommunications	120	98	22	128	102	26
Computer services	628	300	328	677	327	349
Other business services	43	58	-16	42	63	-21
Government goods and services n.i.e.	31	77	-45	31	79	-48
Primary Income	155	1,963	-1,808	127	2,224	-2,097
Compensation of employees	19	68	-50	19	83	-63
Investment income	137	1,895	-1,758	108	2,142	-2,034
Direct investment	17	670	-653	17	811	-794
Dividends	17	289	-273	17	469	-453
Reinvested earnings	-	380	-380	-	341	-341
Portfolio investment	-	828	-828	-	868	-868
Equity	-	69	-69	-	108	-108
Interest	-	758	-758	-	760	-760
Short term	-	61	-61	-	27	-27
Long term	-	697	-697	-	734	-734
Other investment	18	398	-379	25	463	-438
Reserve assets	102	-	102	66	-	66
Secondary Income	7,046	819	6,227	7,007	814	6,193
General government	28	-	28	27	-	27
Workers' remittances	7,018	819	6,199	6,980	814	6,167
Current Account	23,936	25,924	-1,988	24,036	26,044	-2,009
Capital Account	73	15	58	71	24	46
Capital transfers	73	15	58	71	24	46
General government	52	-	52	50	-	50
Corporations and households	21	15	6	21	24	-3
Current and Capital Account	24,009	25,938	-1,929	24,107	26,069	-1,962

(a) Revised

Source: Central Bank of Sri Lanka

(b) Provisional

(c) Passenger services provided to non-residents are included in transport services.

inflows on account of transportation services, consisting of passenger fares, freight charges, port and airport related activities, marked a growth of 9.4 per cent in 2015. Increased inflows from air passenger transport services, in line with the growth in tourist arrivals mainly contributed towards this increase in inflows from transportation services. Further, an increase in transshipments and container handling was witnessed during the

year, with the Colombo International Container Terminal (CICT) in the newly built Colombo South Harbour coming in to full scale operations in 2015. Meanwhile, outflows on account of transportation services grew by 8.0 per cent in 2015 to US dollars 1,579 million, largely due to the increased port and airport related service payments, particularly higher spending on freight, which coincide with the increase in goods imports. Consequently, net inflows to the transport sector during 2015 amounted to US dollars 526 million, in comparison to US dollars 462 million in 2014.

Inflows on account of passenger fares increased by 17.8 per cent to US dollars 997 million in 2015 over the previous year. This was mainly supported by the increase in the number of passenger arrivals during the year and the upward revision in airfares by SriLankan Airlines, following the increase in airfares by other global competitor airlines. Meanwhile, SriLankan Airlines plans to further increase its operating efficiency by replacing three new aircrafts in 2016, following the replacement of five aircrafts in 2015. This improvement in operating efficiency, together with the expansion of flight destinations and the increase in frequency of flights operated by SriLankan Airlines, would result in a steady growth in the receipts on account of passenger fares over the medium term.

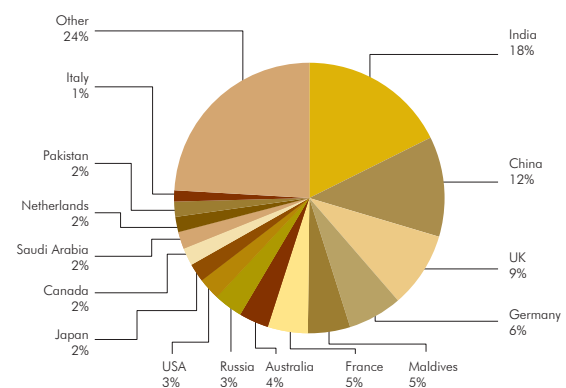
Gross inflows on account of freight and port-related activities recorded a moderate growth in 2015 with subdued global economic activity. The decline in global trade volumes resulted in Sri Lanka's port related services recording a drop in volume during the year. However, port-related activities, including transshipment and container handling, and bunkering services, improved following the full scale operations in the newly built Colombo South Harbour, which resulted in an increase in the number of ships arriving at the Port of Colombo.

Travel and Tourism

The Sri Lankan tourism industry, being one of the fastest growing industries of the post conflict economy, achieved a multitude of success during 2015. Tourist arrivals recorded 1,798,380 arrivals, almost achieving the revised target of 1.8 million arrivals set for the year. Significant increase in investment in the tourism industry, tourism related infrastructure development, introduction of new tourist attractions and strategic promotional campaigns conducted by the private sector and the government in order to attract more tourists in to the country, helped achieve this success.

Tourist arrivals from all major regions, except Eastern Europe, increased in 2015. Western Europe continued to be the largest tourist origin for Sri Lanka with the number of tourist arrivals increasing by 15.3 per cent to 552,442. However, continuing the trend observed since 2012, tourist arrivals from Western Europe, as a share of total arrivals, fell further to 30.7 per cent in 2015, from 37.1 per cent in 2012, reflecting the growth in tourist arrivals from non-traditional sources. The share of tourist arrivals from East Asia increased continuously since 2010, mainly due to the impact of China dominating the region at an impressive growth rate. In terms of individual country basis, India remained as the leading country of tourist

Chart 5.7 Tourist Arrivals by Country - 2015



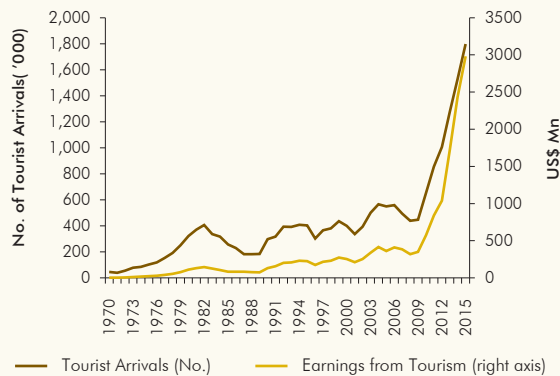
BOX 8

Tourism Industry: Prospects and Challenges

The Sri Lankan tourism industry has been experiencing a rapid expansion and diversification, to become one of the largest and fastest-growing economic sectors of the post conflict economy, despite many issues and challenges. Tourist arrivals to Sri Lanka have increased from 448,000 in 2009, to 1.8 million in 2015. The earnings from tourism also have surged from US dollars 349 million in 2009, to US dollars 2,981 million in 2015, becoming the third largest foreign exchange earner in the country, succumbing only to workers' remittances and income from garment exports.

Arrivals from India continued to dominate over the years while fast growing arrivals from China surpassed UK to clinch the second place, and arrivals from Germany and Maldives too marking their presence in 2015. Sri Lankan tourism industry is increasingly getting accolades from world reputed media organisations such as Lonely Planet Magazine, Conde Nast Magazine of France, Forbs Magazine, Fox News Agencies and UK Sunday Times.

Chart B 8.1

Tourism Growth Trends
1970 to 2015

Growth Potential

The Sri Lankan tourism industry has enormous potential to grow. As per the table given below, Sri Lanka shares 0.13 per cent of the total tourists' arrivals and 0.2 per cent of the total tourist earnings of the world. Therefore, great potential lies ahead since Sri Lanka has grasped only a fraction of the world tourism at present.

According to the estimates made by the World Travel and Tourism Council (WTTC), the direct and total contribution¹ to the GDP and employment by the travel and tourism

¹ According to the WTTC, the direct contribution of travel and tourism to the GDP reflects the spending within a particular country on travel and tourism, by residents and non-residents, for business and leisure purposes, as well as spending by the government on travel and tourism services directly linked to visitors, such as museums, national parks, hotels, airlines, airports, travel agents and leisure and recreation services. The total contribution of travel and tourism to the GDP includes its 'wider impacts' (i.e. the indirect and induced impacts) on the economy.

sector of Sri Lanka is far better than the World and Asia Pacific averages. Nevertheless, the potential for growth lies untapped, as the travel and tourism's direct and total contribution to both the GDP and employment of Sri Lanka is comparatively lower than regional competitors such as Maldives, Cambodia, Thailand and Malaysia.

Table B 8.1
Tourist arrivals and Earning from tourism of selected countries in 2014

Country / Region	No. of arrivals in 2014 ('000)	Market Share (%)	Tourist Earnings in 2014 (US\$ millions)	Market Share (%)
World	1,133,000	100.00	1,245,000	100.00
o/w, Asia and Pacific	263,305	23.24	376,815	30.27
Hong Kong	27,770	2.45	38,376	3.08
Singapore	11,858	1.05	19,203	1.54
India	7,703	0.68	19,700	1.58
Maldives	1,205	0.11	2,661	0.21
Sri Lanka	1,527	0.13	2,431	0.20

Source: World Tourism Organisation

Traditionally, the natural beauty, comfortable climate, historical and cultural heritage and religious diversity are considered as areas of growth potentials in the tourism industry of Sri Lanka. Further, the success of tourism is greatly dependent on the security and safety of a country. At present, Sri Lanka is among the few tourist destinations left in the world without any threat of terrorism. Also, Sri Lanka is blessed with 1,500km of coastal belt, yet, it has not been utilised to realise its true potential. Therefore, high potential exists in niche segments of tourism such as MICE (Meeting, Incentives, Conferences and Events) tourism, Health tourism, Eco tourism, Adventure tourism, Leisure tourism, Agro tourism, Cruise and Marine tourism, Village and Urban tourism and Recreational tourism in Sri Lanka.

In order to realise the potential of these niche segments of tourism, a massive boost from mega infrastructure development projects is required in addition to a structural transformation covering all sectors of the economy, while preserving the national heritage and environment. Encouragingly, the government's proposed Western Region Megapolis Development Master Plan, unveiled in January 2016, and the government budget for 2016 consist of proposals for the development of the tourism sector with direct focus on the new potential areas.

Challenges Faced by Tourism Industry

Any growing industry in an economy faces challenges and the Sri Lankan tourism industry is no exception. The following has been identified by specialists as key challenges in the tourism industry of Sri Lanka.

- Inadequacy of hotel rooms in relation to the expected tourist growth: According to the Sri Lanka Tourism Promotion Bureau (SLTPB), more than 2.2 million

tourists are expected in 2016. In order to cater to such a high number of tourists, it is estimated that about 40,000 to 50,000 rooms are required, where only about 30,000 hotel rooms are available in both tourist hotels and supplementary establishments as at end 2015. More than 6,400 hotel rooms are expected to add on in 2016 and many new hotel projects to enhance facilities are in the pipeline. However, it will be barely enough to cater to the growing number of tourist arrivals, unless attention is directed towards increasing the number of hotel rooms.

- Requirement of skilled labour and labour migration: A large number of trained Sri Lankan manpower in the hospitality industry is employed in other countries for higher wages. Regular manpower supply for the tourism industry is also not enough to cater to the high potential of the industry. As the government alone could not provide the required training, a partnership with the private sector is required to cater to the growing requirement of skilled labour in the tourism industry.
- Inadequate interest by most renowned hotel chains on Sri Lanka and the minimum rate imposed for Colombo Hotels: Despite recent interest shown by global hotel chains on Sri Lanka, it is observed that many leading hotel chains have not yet expanded their businesses to Sri Lanka sufficiently. As per the top ten international luxury hotel brands named by Forbes Magazine, only 3 are represented in Sri Lanka at present. Meanwhile, the pros and cons of the minimum rate imposed by the government on star class hotels in Colombo, also has to be seriously considered in the context of a growing industry.
- Focus of the tourism strategy to target high-end, middle-end or lower-end tourists: Many discussions have taken place on the ways of attracting high-end tourists to Sri Lanka despite it being considered a relatively low cost value-for-money destination. Attracting more high-end tourists will help to increase the average receipt per tourist, which is about US dollars 164 at present. In the meantime, it would be safer for a country like Sri Lanka to direct policy measures towards attracting all types of tourists, since specialisation towards only high-end might increase the vulnerability of the industry.
- Absorbing informal sector: Despite the formal sector of the tourism industry being highly regulated, there is a significant informal sector operating within the industry. Hence, attention is required to absorb the latter into the formal sector, thereby, enabling proper regulation. The informal sector needs to improve the safety and ethics on tourism, as failure to do so would lead to the diminishing of the positive image of the country. Further, lack of reliable data related to the informal sector also creates problems with regard to industry related planning.
- Ability to cater to the growing tourist arrivals from China, which has a huge potential: Current developments in the tourism industry has created new challenges in catering to the growing arrivals of Chinese tourists, where a dedicated Chinese language TV and radio channel and Chinese speaking tourist guides, etc. are required.
- Average duration of stay, calculated as the number of nights, has stagnated over the years: Despite the receipt per tourist per day having grown over the years, the average duration of stay has stagnated to around 10 guest nights over the years, mainly due to the lesser number of activities available for a tourist in Sri Lanka. Therefore, policy initiative is needed to diversify the availability of tourist activities in Sri Lanka, where more emphasis should be made towards lagging sectors of the tourism industry, such as, marine and cruise tourism, leisure tourism and recreational tourism, in order to target average guest nights to at least two weeks. However, with the proposals to develop Sri Lanka as a centralised hub of Logistics, Finance, Commerce and Knowledge in South Asia, the inflow of business tourists, who generally have a lower potential average stay, to Sri Lanka is expected to increase. Therefore, different strategies are required to treat tourists separately, according to their purpose of visit.
- Need for an innovative approach: There is a need for increasing the number of multi-purpose tourist information centers at key tourist attractions and major transport hubs, which provide not only information, but a diverse range of tourist related services such as bus, train, taxi and hotel bookings, mobile connections, Wi-Fi, tour planning, etc.. Increasing mobile and internet coverage through innovative projects such as the Google Loon project, which proposed to cover the entire island with high speed internet, will increase the connectivity and feeling of security, especially for tourists. A proper, tourist friendly public transport service, along with travel card facilities such as "Tourist Pass" and special tourist train and bus rides on scenic routes, funicular railway routes, cable car rides, high quality amusement parks, domestic cruise and yacht services are also key areas that will attract more tourists. Further, a high level governmental body is needed for the oversight of all stakeholders of the tourism industry, including tourist related government organisations, along with the private sector, thereby allowing the implementation of higher level strategies in a more collaborated manner. In addition, a social transformation for better road safety and courtesy, proper waste disposal habits and an improved attitude and a cultural acceptance towards tourists, will indirectly support the growth and sustainability of the tourism industry and ultimately the entire society.

The government budget for 2016 has recognised many proposals regarding the tourism industry in order to overcome prevailing challenges and initiate new developments. Adding to that, the new Western Region Megapolis Master Plan of the government has introduced a carefully strategised long term plan to improve the Western Region as a high-end tourist destination and increase tourist arrivals to 4.5 million by 2035. Conceptualised projects such as Aero Maritime Trade Hub, “High Rise” Central Business District, Industrial and Tourist Cities, Science and Technology City, Eco Habitat and Plantation City, and Multi Model Transport Hubs are among the projects that

could directly and indirectly benefit the tourism industry of Sri Lanka. These new strategies and proposed action will help overcome the problems faced by the tourism industry and align the tourism industry towards a path of prosperity, in order to achieve sustainable development within the next decade.

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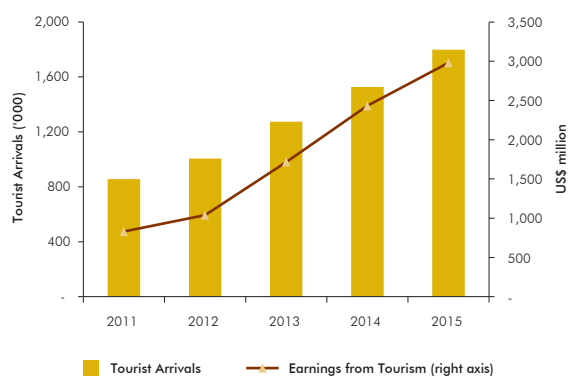
origin with 316,247 arrivals in 2015, while China surpassed the UK to come second, followed by Germany, Maldives and France. These six countries together accounted for 54.8 per cent of tourist arrivals to Sri Lanka in 2015. The highest growth of 67.6 per cent to 214,783 of tourist arrivals was recorded from China, followed by both Netherlands and Denmark, recording a growth of 35.3 per cent, to 32,742 and 15,203 arrivals, respectively. In terms of the purpose of visit, about 67 per cent of tourists visited the country for purpose of holiday, in 2015. Tourist arrivals for business purposes recorded a marginal level of 1 per cent, while the share of tourist arrivals for other purposes, such as visiting friends and relatives, religious and cultural purposes, health, education and sports, was about 32 per cent of total arrivals in 2015.

Earnings from tourism increased substantially in 2015, supporting the services account to remain elevated. In 2015, earnings from tourism increased by 22.6 per cent to US dollars 2,981

million, compared to US dollars 2,431 million in 2014. The growth in earnings from tourism was supported by the continued increase in tourist arrivals and spending by tourists. The average spending by a tourist per day increased to US dollars 164.1 in 2015, from US dollars 160.8 in 2014, primarily due to higher arrivals of high-spending tourists and enhanced facilities offered. Meanwhile, the average period of stay of a tourist was recorded at 10.1 days in 2015. The diversification of the tourism industry into niche markets and the development of non-traditional areas also contributed towards the growth of the sector. The growth momentum is expected to continue in the coming years, with the support of various tourism promotion activities and the expansion of capacity in the hotel industry. Meanwhile, outflows on account of travel also grew, albeit at a lower rate than inflows, with the renewed interest of Sri Lankan residents in foreign travel for leisure, education and health purposes. Overall, the surplus of the travel and tourism sub account increased by 33.6 per cent in 2015.

Chart 5.8

Tourist Arrivals and Earnings from Tourism



Investment in the tourism sector expanded further in 2015. International hotel chains including Shangri-La, Hyatt, Movenpick, Sheraton, RIU, Banyan Tree, Anantara, ITC and NEXT continued their construction work during the year. During 2015, investment proposals for 35 new hotel projects with 2,242 hotel rooms were approved with a value of US dollars 889 million, which shows a growth of 109 per cent over the investment in 2014, which received only

Table 5.7

Performance in the Tourism Sector

Item	2011	2012	2013	2014	2015 (a)	Y-o-Y Change % 2015
Tourist Arrivals (No.)	855,975	1,005,605	1,274,593	1,527,153	1,798,380	17.8
Arrivals by Purpose of Visit						
Pleasure	687,830	748,436	915,208	1,037,644	1,198,240 (c)	15.5
Business	68,436	90,040	67,946	20,270 (b)	23,323 (c)	-15.1
Other	99,709	167,129	291,439	469,239 (b)	576,817 (c)	22.9
Tourist Guest Nights ('000)	8,560 (b)	10,056	10,909 (b)	15,119	18,163	20.1
Room Occupancy Rate (%)	77.1	71.2	71.7	74.3	74.5	0.3
Gross Tourist Receipts (Rs. million)	91,926	132,427	221,720	317,479	405,492	27.7
Per Capita Tourist Receipts (Rs.)	107,393	131,688	173,954	207,889	225,476	8.5
Total Employment (No.)	138,685	162,869	270,150	299,890	319,436 (c)	6.5
Direct Employment	57,786	67,862	112,550	129,790	135,930 (c)	4.7
Indirect Employment (c)	80,899	95,007	157,600	170,100	183,506	7.9

(a) Provisional
(b) Revised
(c) Estimates

Sources: Sri Lanka Tourism Development Authority
Central Bank of Sri Lanka

US dollars 425 million. Further, 20 new hotel projects commenced operations, totaling to 354 hotels adding 867 rooms, thereby expanding the room capacity to 19,377 during 2015. Further, supplementary establishments which include boutique villas, guest houses, home stays, heritage homes, bungalows and rented apartments increased to 1,409 with a total room capacity increased to 10,702 in 2015. The tourism industry is blooming in the Eastern and Northern provinces of the country with the end of the internal conflict and local and foreign investors have already commenced the gradual movement towards these provinces. Reflecting this situation, 56 and 18 projects related to tourism development have been completed in the Eastern and Northern provinces, respectively, up to 2015 since the end of conflict. In addition, proposals have been made to develop integrated tourism resort projects in Kalpitiya, a resort and recreation development in Dedduwa and a beach resort in Kuchchaveli by the BOI of Sri Lanka.

Developing tourism related sectors will also benefit the economy through increased value addition. Under this, the SLTDA has introduced a scheme of certification of restaurants in tourism zones which are not registered under the SLTDA, in collaboration with Ministry of Health and Municipalities, with a view of upgrading basic standards such as facilities, hygiene conditions and service standards.

In 2015, a country specific strategic marketing plan was developed by the Sri Lanka Tourism Promotion Bureau (SLTPB), in consultation with the industry stakeholders, focusing on 20 key markets that would promote the unique island treasures of nature, culture and adventure, which will entice people to visit and re-visit Sri Lanka. In 2015, the SLTPB participated in over 50 travel fairs and road shows held overseas, creating many opportunities for the local travel industry to develop new business contacts and also strengthen their existing trade links. Further, the Visiting Journalist Program (VJP) of the SLTPB was aimed at creating awareness on Sri Lanka by bringing in high profile journalists from key global markets. In addition, the SLTPB successfully conducted 35 local events, creating a platform for tourist to experience Sri Lanka. Cultural and Religious Parades, Sancharaka Udawa, Colombo Fashion Week, Hotel Show, Live Trinco Festival and Guinness World Record attempt to host world's largest tea party, were few of the successful events conducted in 2015.

Telecommunications, Computer and Information Services

Inflows from telecommunications, computer and information services continued to increase

in 2015. Total earnings from the export of telecommunications, computer and information services amounted to US dollars 805 million in 2015, marking a growth of 7.6 per cent over 2014. The growth momentum in the telecommunications sub sector was maintained with total earnings increasing to US dollars 128 million in 2015, from US dollars 120 million in 2014. Although the high competition in the telecommunications sector has led to a significant decline in the domestic price of international voice call charges in recent years, greater utilisation of internet services resulted in a drop in both International Direct Dialing (IDD) incoming and outgoing voice call minutes in 2015, compared to 2014. Meanwhile, the telecommunications industry is undergoing a rapid transition to meet the increasing demand in the growing digital and mobile related markets. The successful implementation of the 'Google Loon' project, which is expected to boost access to the internet across the country, would further improve the performance of this sector.

Performance in computer and information services improved during 2015. Gross inflows to the computer and information services sub sector increased by 7.8 per cent to US dollars 677 million in 2015. Software and Information Technology Enabled Services (ITES), such as Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO), have emerged as sectors with high growth potential in Sri Lanka, generating significant inflows in 2015, compared to the previous year. As a result, Sri Lanka now ranks at the fourteenth position on the 2016 A.T. Kearney Global Services Location Index (GSLI), moving up two notches from the position in 2015. As Sri Lanka has the ability to produce skilled human resources needed for the Information Technology (IT), BPO and KPO sectors, the government has put forward a proposal through the budget 2016, to amend

legislation with a view to addressing issues in the labour market, especially in relation to the BPO and KPO industry. A proposal was also made for undertaking an international promotional and benchmarking exercise in order to develop the BPO industry.

5.4.2 Primary Income

A reduction in earnings on the investment of reserve assets, increased interest payments and outflows in the form of dividends and re-invested earnings, resulted in the further widening of the deficit in the primary income account in 2015. The deficit in the primary income account amounted to US dollars 2,097 million in 2015, when compared to US dollars 1,808 million in 2014. Inflows to the primary income account decreased to US dollars 127 million in 2015, compared to US dollars 155 million in 2014, mainly with the decline in income on reserve assets. The reduction in the level of gross official reserves during the year contributed to the decrease in income earned from reserves to US dollars 66 million, compared to the earnings of US dollars 102 million in 2014.

Outflows from the primary income account increased in 2015. The total outflow from the primary income account amounted to US dollars 2,224 million in 2015, compared to US dollars 1,963 million in 2014, an increase of 13.3 per cent. This was primarily due to the increase in interest payments on International Sovereign Bonds (ISBs) and a significant increase in dividend payments on inward direct investments. Outflows on account of dividend and reinvested earnings of direct investment enterprises increased to US dollars 811 million in 2015, compared to US dollars 670 million recorded a year earlier. This comprised US dollars 469 million of dividend payments and US dollars 341 million of reinvested earnings, which are

regarded as outflows from the primary income account and inflows to the financial account in the form of direct investments. The dividend payments on inward direct investments were much higher, compared to the previous year, whereas reinvested earnings were lower than a year earlier, indicating intentions of direct investors to repatriate profits back instead of reinvesting. Meanwhile, of the total interest payments on portfolio investments of US dollars 868 million in 2015, US dollars 108 million were dividend payments on equity investments, while US dollars 760 million were coupon and interest payments on debt securities. Further, primary income outflows in the form of other investment, which consist of interest payments on foreign loans, amounted to US dollars 463 million in 2015, compared to US dollars 398 million in 2014. Of the total interest payments on foreign loans in 2015, interest payments on foreign loans obtained by the government, private sector and SOBEs, deposit taking corporations and the Central Bank, amounted to US dollars 266 million, US dollars 118 million, US dollars 67 million and US dollars 13 million, respectively. During recent years, a structural change in coupon and interest payments was observed, with the government paying a higher amount as coupon payments on ISBs when compared to interest payments on project loans, despite a relatively lower outstanding amount of ISBs.

5.4.3 Secondary Income

The secondary income account remained subdued during the year, mainly due to the slowdown in workers' remittances, which account for most of the secondary income inflows. Workers' remittances declined by 0.5 per cent to US dollars 6,980 million, reflecting a sharp moderation from the growth of 9.5 per cent observed in 2014. Government transfers also recorded a decline of 4.3 per cent over

2014. As a result, inflows to the secondary income account amounted to US dollars 7,007 million during the year 2015, a decline of 0.5 per cent over a year earlier. The decline in workers' remittances during 2015 was largely attributable to the fall in the income of oil exporting countries in the Middle East and the resultant stagnating growth in these countries, which have traditionally been the main source of income transfers from migrant workers. Further, the 23.2 per cent decline in labour migration under the semi-skilled and unskilled categories, including house-maids, would also have contributed to the deceleration in workers' remittances during the year. This decline in labour migration is a result of several policy measures taken by the government to discourage departures of house-maids and unskilled workers, and the prevailing geo-political uncertainty in the Middle Eastern region. Meanwhile, data released by the Sri Lanka Bureau of Foreign Employment highlights that labour migration under the skilled category, including professionals, had increased by 12.5 per cent during the year, indicating a compositional change in workers' remittances in coming years.

5.5 Current Account Balance

Despite the widening of the deficits in trade and income accounts, the deficit in the external current account was limited to US dollars 2.0 billion in 2015, mainly due to the surpluses in the services and secondary income accounts. The merchandise trade deficit continued to widen in 2015 due to an increase in the expenditure on the importation of consumer goods and the slowdown in export earnings. However, a substantial increase in the trade deficit was largely abated by the low expenditure on the importation of crude oil, driven by the significant decline in oil prices in the international markets, resulting in the

merchandise trade deficit recording a marginal increase of 1.7 per cent in 2015 over the previous year. However, the deficits in trade and income accounts were partially offset by the surplus in the services account, which was mainly driven by a substantial increase in earnings from tourism and the surplus in the secondary income account, although the latter experienced a setback during the year due to a marginal decline in workers' remittances. Consequently, the current account deficit amounted to US dollars 2,009 million in 2015, compared to US dollars 1,988 million recorded a year earlier. However, the current account deficit as a percentage of GDP narrowed slightly to 2.4 per cent of GDP in 2015, compared to 2.5 per cent of GDP in 2014, as a result of a moderate growth in the nominal GDP.

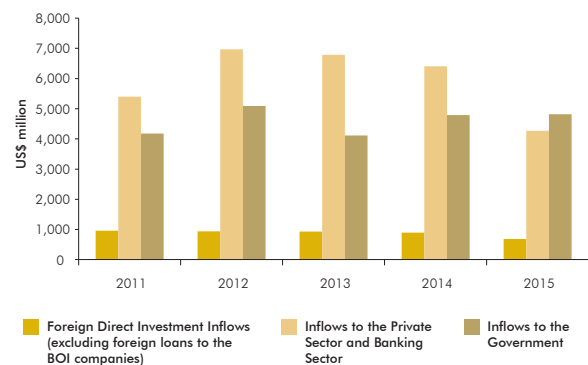
5.6 Capital Account Balance

Lower inflow of capital transfers resulted in the capital account balance remaining subdued in 2015. Net inflows to the capital account dropped to US dollars 46 million in 2015, from US dollars 58 million in 2014. This was mainly due to an increase in outflows of capital transfers from US dollars 15 million in 2014, to US dollars 24 million in 2015. Meanwhile, capital transfers received by the government and the private sector also declined marginally from US dollars 73 million in 2014, to US dollars 71 million in 2015.

5.7. Financial Account

Both the net incurrence of liabilities and the net acquisition of financial assets in the financial account of the BOP were considerably lower in 2015 than in 2014. Net incurrence of liabilities in 2015 recorded an increase of US dollars 3,227 million, compared to an increase of US dollars 4,124 million in 2014, while the net acquisition of assets recorded only a moderate increase of US dollars 957 million in 2015, compared to an increase of US dollars 2,588 million in 2014. These

Chart 5.9 Inflows to the Financial Account



relatively low levels of inflows were partly due to the performance of the world economy in 2015, while subdued investor sentiment amidst two major national elections also contributed to the foreign direct investment inflows remaining below expectations during the year. The anticipation of an interest rate hike in the US during the first three quarters of the year and the subsequent increase in interest rates in the fourth quarter, had a profound effect on foreign investments in many emerging market economies, including Sri Lanka. As a result, foreign investments in government securities, namely Treasury bills and bonds, as well as foreign investment in the Colombo Stock Exchange (CSE) recorded a significant outflow. The major source of inflows to the financial account of the BOP during 2015 was the issuance of two ISBs totaling US dollars 2,150 million following the repayment of the matured ISB of US dollars 500 million in the beginning of the year. The other major inflow to the financial account was the proceeds of the international swap arrangement of US dollars 1,500 million entered in to with the Reserve Bank of India (RBI), of which US dollars 400 million was repaid during 2015. During the year, the government also renewed its focus in foreign financing through the issuance of SLDBs. Further, traditional sources of inflows to the financial account, such as foreign loans to the government, SOBEs and the private sector, performed moderately during 2015.

5.7.1 Direct Investment

Total foreign direct investment (FDI) inflows, which include foreign borrowings of BOI companies, reduced significantly in 2015. Total FDI inflows with foreign loans to BOI companies amounted to US dollars 1,161 million, while the FDI, excluding foreign loans to BOI companies, amounted to US dollars 681 million in 2015. This was a sharp moderation compared to the US dollars 1,635 million and US dollars 894 million, respectively, recorded in 2014. The decline in FDIs in 2015 can be attributed to several reasons. Firstly, two national elections held during the year prompted investors to adopt a wait and see approach until the political environment stabilises. Secondly, with the possibility of the rate hike by the Federal Reserve of the US, many investors were reluctant to invest in emerging markets in the backdrop of continuous outflows, particularly from securities markets of emerging economies. Thirdly, the suspension of the Colombo Port City project due to the government's decision to review the project, also adversely affected FDI inflows during the year. Of the total FDI inflows, US dollars 84 million was in the form of equity, US dollars 341 million were reinvested earnings, US dollars 126 million were shareholder advances and US dollars 222 million were intra-company borrowings, while US dollars 92 million of intra company debt and shareholder advances were repaid during the year. Further, BOI companies received US dollars 480 million of foreign loans from non-related parties during 2015.

FDI flows were channeled largely to projects related to property development, tourism, and telecommunications. Accordingly, property development, tourism and telecommunication projects accounted for 22 per cent, 19 per cent and 14 per cent of the total FDI inflows, respectively,

in 2015. The top 5 countries of direct investments, based on immediate country of investment, were Hong Kong, Mauritius, Netherlands, China and India. Meanwhile, direct investments made by Sri Lankan companies in foreign countries, which result in a net acquisition of assets, amounted to US dollars 53 million in 2015, compared to US

Table 5.8.A Financial Account
(BPM6 Presentation Format)

Item	US\$ million			
	2014 (a)		2015 (b)	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Financial Account	2,588	4,124	957	3,227
Direct Investment	67	894	53	681
Equity and investment fund shares	67	469	53	426
Equity other than reinvestment of earnings	67	88	53	84
Direct investor in direct investment enterprise	67	88	53	84
BOI companies	-	10	-	36
Companies not registered with the BOI	-	-15	-	62
Other companies	-	93	-	-13
Reinvestment of earnings	-	380	-	341
Debt instruments	-	425	-	256
Direct investor in direct investment enterprise	-	425	-	256
BOI companies	-	424	-	110
Shareholder advances	-	208	-	126
Inter-company borrowings	-	224	-	76
Debt repayments	-	-7	-	-92
Companies not registered with the BOI	-	1	-	145
Portfolio Investment	-0.2	2,065	0.02	689
Equity and investment fund shares	-	178	-	-58
CSE companies	-	178	-	-58
Debt securities	-0.2	1,887	0.02	747
Deposit-taking corporations	-0.2	250	0.02	-
Long term	-0.2	250	0.02	-
General government	-	1,462	-	747
Short term (Treasury bills)	-	-173	-	-392
Long term	-	1,635	-	1,139
Treasury bonds	-	60	-	-701
Sri Lanka Development bonds	-	75	-	190
Sovereign bonds	-	1,500	-	1,650
Other sectors	-	175	-	-
Long term	-	175	-	-
Financial Derivatives	-	-	-	-
Other Investment	973	1,165	553	1,857
Currency and deposits	276	-292	143	1,457
Central Bank	-	1	-	1,098
Short term	-	1	-	-2
Long term	-	-	-	1,100
Deposit-taking corporations	276	-293	143	359
Short term	142	-293	152	359
Long term	134	-	-9	-

Continued on page - 159

Memorandum Items

Total net inflows to the CSE	163	4
Direct investment	-15	62
Portfolio investment	178	-58
Net Investments in Treasury Bills and Bonds (Excluding Sovereign Bonds)	-113	-1,093
Foreign purchases	1,775	1,211
Foreign sales	1,889	2,304

(a) Revised

(b) Provisional

Source: Central Bank of Sri Lanka

dollars 67 million in 2014. Foreign investments abroad were primarily in the form of investments of private equity by the CSE listed Sri Lankan companies and particularly channeled to the plantation sector in South East Asian countries.

5.7.2 Portfolio Investment

Equity and Investment Fund Shares

The subdued global investor sentiment on emerging markets reflected on the passive foreign investment in equity under portfolio investments, in 2015. Net incurrence of liabilities as equity under portfolio investments, which are equity investments with an individual shareholding by a non-resident of less than 10 per cent in a Sri Lankan company, recorded a net outflow of US dollars 58 million in 2015, compared to a net inflow of US dollars 178 million in 2014. Equity investments by non-residents in the CSE listed companies comprise foreign investments, other than direct investments in the CSE companies, which are typically more volatile compared to direct investments, recorded a net outflow of US dollars 94 million from the secondary market and a net inflow to the primary market amounting to US dollars 36 million, resulting in an overall net outflow of US dollars 58 million as equity under portfolio investments. This was in sharp contrast to 2014, where net foreign inflows amounted to US dollars 174 million in secondary market transactions and US dollars 4 million in primary market transactions of the CSE, totaling a net inflow of US dollars 178 million in 2014.

Debt Securities

The issuance of two ISBs to the value of US dollars 2.15 billion by the government was the major inflow on account of debt securities in 2015. These two bonds of US dollars 1,500 million and US dollars 650 million, with a maturity of 10 years, were priced at 6.85 per cent and 6.125 per cent per annum, respectively. These competitive yield rates were attracted at a time of impending

higher interest rates in global capital markets, associated with the expectation of an interest rate hike of the Federal Reserve of the US. However, the ISB of US dollars 500 million, which matured in January, reduced the net effect of the ISB issuances in 2015. Meanwhile, throughout the year, capital outflows from emerging markets back to the US were witnessed in many countries, including Sri Lanka, in the backdrop of the impending interest rate hike of the Fed Reserve Bank during most part of 2015 and the subsequent rate hike announcement in December 2015. As a consequence, substantial outflows in foreign investments in Treasury bills and Treasury bonds were witnessed during the year, resulting in the government securities market, other than ISBs, recording a net outflow of US dollars 903 million during 2015, compared to a net outflow of US dollars 38 million in 2014. This consisted of a net outflow of US dollars 392 million of Treasury bills, US dollars 701 million of Treasury bonds and a net inflow of US dollars 190 million of Sri Lanka Development Bonds (SLDBs) in 2015. Meanwhile, assets as securities held by deposit taking corporations largely remained unchanged at the 2014 level.

5.7.3 Other Investment

Currency and Deposits

Both net incurrence of liabilities associated with currency and deposits, and net acquisition of currency and deposits as assets increased in 2015. Currency and deposit related liabilities of the Central Bank recorded an increase of US dollars 1,098 million, on a net basis, which is the net result of the currency swap arrangement of US dollars 1,500 million with the Reserve Bank of India (RBI) and the subsequent repayment of the first part of the swap facility of US dollars 400 million during the year. Further, currency and deposits held by other deposit taking corporations increased by US dollars 359 million during 2015, which resulted in the total net incurrence of liabilities as currency

Table 5.8.B Financial Account
(BPM6 Presentation Format)

Item	US\$ million			
	2014 (a)		2015 (b)	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Other Investment (Continued from page - 157)				
Loans	-	1,713	-	734
Central Bank	-	-719	-	-507
Credit and loans with the IMF	-	-719	-	-507
Deposit-taking corporations	-	1,358	-	787
Short term	-	1,156	-	657
Long term	-	202	-	131
General government	-	646	-	470
Long term	-	646	-	470
Other sectors (c)	-	429	-	-16
Long term	-	429	-	-16
Trade credit and advances	383	-407	166	-376
Deposit-taking corporations	8	-	-30	-
Short term	8	-	-30	-
Other sectors (d)	375	-407	196	-376
Short term	375	-407	196	-376
Other accounts receivable/payable	314	151	244	41
Central Bank	-	151	-	41
Short term (e)	-	151	-	41
Deposit-taking corporations	314	-	244	-
Short term	314	-	244	-
Special Drawing Rights (SDRs)	-	-	-	-
Reserve Assets	1,548		350	
Monetary gold	9		-39	
Special Drawing Rights	-6		-2	
Reserve position in the IMF	-		-	
Other reserve assets	1,545		391	
Currency and deposits	496		116	
Claims on monetary authorities	462		369	
Claims on other entities	34		-253	
Securities	1,049		275	
Debt securities	1,049		275	
Long term	1,049		275	
Financial Account (net)	-1,536		-2,271	
Memorandum Items				
Long term loans to the government (net)		646		470
Inflows (Disbursements)		1,439		1,268
Repayments		793		798

- (a) Revised
 (b) Provisional
 (c) Include State Owned Business Enterprises (SOBEs) and private sector companies.
 (d) Include trade credits received by the Ceylon Petroleum Corporation (CPC) and other private companies.
 (e) Net transactions of Asian Clearing Union (ACU) liabilities
- Source: Central Bank of Sri Lanka

and deposits to increase by US dollars 1,457 million in 2015. Meanwhile, transactions relating to the acquisition of currency and deposit assets increased by US dollars 143 million, on a net basis, mainly due to the increase in short term currency and the deposits held abroad by deposit taking corporations.

Loans

Loan inflows to the government moderated during the year, whereas higher repayments by the private sector, deposit taking corporations and the Central Bank resulted in the lower net loan inflow in 2015. Accordingly, net inflows from foreign loans amounted to US dollars 734 million, compared to US dollars 1,713 million in 2014.

Net foreign loan inflows to the government were lower in 2015, compared to the previous year. In the backdrop of two major national elections, the initiation of most government projects stalled during the first three quarters of 2015, resulting in a decrease in project loan inflows. Consequently, loan inflows in the form of government project loans amounted to US dollars 1,268 million in 2015, compared to US dollars 1,439 million in 2014. Further, repayments of government loans increased marginally to US dollars 798 million in 2015, compared to US dollars 793 million in 2014. Major loan inflows to government projects during 2015 included, the improvement and rehabilitation of priority roads (Phase I and II), Sri Lanka SME and green energy global loan, Matara Beliatta section of Matara Kataragama railway extension project and Phase II of the Greater Colombo urban transport development project.

In 2015, the net amount of foreign loans obtained by deposit taking corporations also recorded a sharp decline. Net foreign loan inflows to deposit taking corporations, which consist of LCBs, LSBs and Licensed Finance Companies (LFCs), amounted to US dollars 787 million in 2015, compared to US dollars 1,358 million in 2014. Of the total net loan inflows, US dollars 657 million was in the form of short term net inflows, while US dollars 131 million was in the form of long term net inflows.

The Central Bank continued to make repayments due under the IMF-SBA facility in 2015. Accordingly, US dollars 507 million was

made as principal payments of the IMF-SBA facility in 2015, which was disbursed from 2009 to 2012. The total amount received under the facility is scheduled to be fully settled by July 2017.

Table 5.9 Major Projects Financed with Foreign Borrowings during 2015

Lender and Project	Amount Disbursed US\$ million
Government Projects - Total	1,268
of which;	
The Export-Import Bank of China	295
of which;	
Construction of extension of Southern Expressway project - Section I from Mathara to Beliaththa	67
Construction of extension of Southern Expressway project - Section IV from Mattala to Hambanthota	36
Mathara-Beliaththa section of Mathara Katharagama railway extension project	31
Highway section project from Pinnaduwa to Kodagoda	18
Rehabilitation and improvement of Puththalam - Marichchikade - Mannar road project	18
Asian Development Bank	288
of which;	
Integrated road investment program	31
Local government enhancement sector project	19
Clean energy and access improvement project	18
National highway sector project	17
China Development Bank Corporation	193
of which;	
Improvement and rehabilitation of priority road project 3 - Phase I	109
Improvement and rehabilitation of priority road project - Phase II	51
Moragahakanda development project	24
Government of Japan	168
of which;	
Greater Colombo urban transport development project - Phase II	57
Greater Colombo transport development project	20
Water sector development project II	19
International Development Association	118
of which;	
Secondary health sector development project	39
Transforming the school education system as the foundation of a knowledge hub project	18
European Investment Bank	81
Sri Lanka SME and green energy global loan	81
Government of India	73
of which;	
Restoration of Northern railway services project	28
Procurement of two advanced offshore patrol vessels	27
Co-op Centrale Raiffeisen-Boerenleenbank	73
of which;	
Construction of 463 rural bridges project	20
Deutsche Bank AG	37
Construction of 537 steel beam bridges project	37
HSBC (with Guarantee of EKF Denmark)	25
Establishment of a dairy processing plant at Badalgama	25
International Bank for Reconstruction and Development	19
Metro Colombo urban development project	19
State Owned Business Enterprises - Total	80
Puththalam coal power project - Phase II	67
Hambanthota port development - Phase I for ancillary work and supply of equipment project	9
Puththalam coal power project - Buyer's credit facility	5

Source: External Resources Department of Ministry of National Policies and Economic Affairs

Foreign loans to the private sector and SOBEs recorded a marginal net outflow with high loan repayments, compared to loan inflows in 2015. During the year, loan inflows to these two sectors amounted to US dollars 561 million, with a total loan repayment of US dollars 577 million, resulting in a net outflow of US dollars 16 million. Similar to the low foreign loan inflows to the government and deposit taking corporations, the private sector also received only a limited amount of foreign loan inflows during 2015. Of the total foreign loan inflows to the sector, US dollars 481 million were for the private sector, while the SOBEs received the balance US dollars 80 million. Loans to the private sector were mainly channeled to tourism, telecommunications and port development sectors. Foreign loans obtained by the private sector remained high during the past few years, due to low levels of global interest rates. However, with the initiation of the rate hike in the US, global interest rates are expected to increase and is likely to result in a lower level of foreign borrowings from the private sector and deposit taking corporations.

Trade Credit and Advances and Other Accounts Receivable / Payable

Trade credits and advances received decreased, while trade credit and advances given increased in 2015. Trade credits received, of which a major component is trade credits received by the Ceylon Petroleum Corporation (CPC), decreased during 2015, resulting in a decrease of net incurrence of liabilities of trade credits received, by US dollars 376 million compared to a decrease of US dollars 407 million in 2014. The CPC's primary reliance on crude oil bought on shorter credit periods, with the sanctions imposed on the import of Iranian crude oil from 2014 onwards, resulted in a gradual reduction in trade credits outstanding in 2014, as well as in 2015. Meanwhile, the net acquisition of assets on trade credit and advances, which represent trade credits given

by Sri Lankan exporters to their overseas trading partners, increased by US dollars 196 million in 2015, compared to an increase of US dollars 375 million in 2014. Further, trade credits given by deposit taking corporations, recorded a net decrease of assets of US dollars 30 million in 2015.

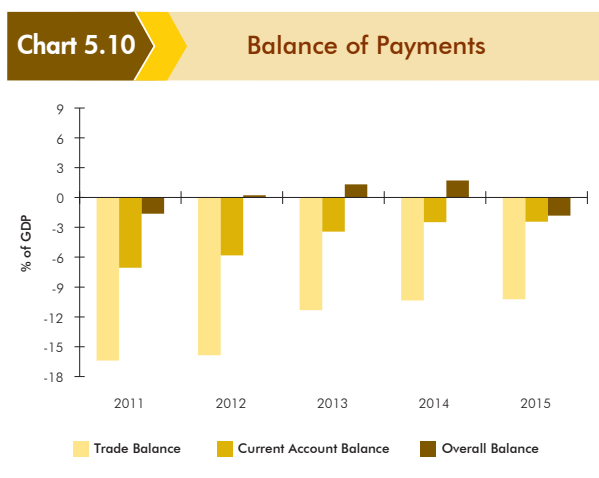
5.7.4 Reserve Assets

Transactions related to reserve assets declined in 2015 mainly due to the reduction in the stock of reserve assets during the year.

This was primarily due to the low level of inflows to the financial account, which was not sufficient to cover the current account deficit, thus resulting in a depletion of reserves during 2015. Consequently, reserve asset transactions recorded only a moderate increase of US dollars 350 million, on a net basis, in 2015, compared to the net increase of US dollars 1,548 million in 2014. The reserve transactions in 2015 were characterised with a decrease of monetary gold transactions by US dollars 39 million, an increase in currency and deposits by US dollars 116 million and an increase in debt securities by US dollars 275 million.

5.8 Balance of Payments

The overall balance of the BOP, which is the change in net international reserves, recorded a deficit during the year 2015. The widening of the current account deficit and the comparatively



low level of net inflows to the financial account during 2015, contributed to the deterioration of the overall balance to a deficit of US dollars 1,489 million, in comparison to the surplus of US dollars 1,369 million in 2014.

5.9 International Investment Position

Sri Lanka's external liability position increased moderately, while the foreign asset position declined at end 2015, as a consequence of moderate inflows to the financial account. As a result of a notable decrease in reserve assets, the total foreign assets position declined to US dollars 10,887 million as at end 2015, compared to US dollars 11,186 million as at end 2014. Of the total financial asset position as at end 2015, 67 per cent amounted to the reserve asset position. Meanwhile, the direct investment asset position and other accounts' receivable position increased by end 2015, compared to the beginning of the year. The total liability position recorded a moderate increase, resulting in an outstanding liability position of US dollars 53,586 million as at end 2015, compared to US dollars 52,811 million as at end 2014. Out of the three major liability components in the international investment position (IIP), both the portfolio investment liability position as well as the direct investment liability position decreased, while foreign loans liability position increased marginally. The net effect of the decline in the financial assets and the increase in the liability position resulted in the widening of the net IIP to an outstanding net liability position of US dollars 42,699 million as at end 2015, from US dollars 41,625 million as at end 2014.

5.9.1 Direct Investment Position

The direct investment liability position declined as at end 2015, as a result of significant reductions in market prices, while the direct investment asset position recorded a marginal

Table 5.10

**International Investment Position
(BPM6 Presentation Format)**

Item	US\$ million (End period position)			
	2014 (a)		2015 (b)	
	Assets	Liabilities	Assets	Liabilities
Direct Investment (c)	607	10,572	660	9,972
Equity and investment fund shares	604	8,028	657	7,253
Debt instruments	3	2,544	3	2,719
Portfolio Investment	0.1	12,664	0.1	12,375
Equity and investment fund shares	-	1,869	-	1,536
Other sectors	-	1,869	-	1,536
Debt securities (d)	0.1	10,795	0.1	10,839
Deposit-taking corporations	0.1	2,263	0.1	2,140
Long term	0.1	2,263	0.1	2,140
General government	-	8,358	-	8,534
Short term	-	399	-	33
Long term	-	7,959	-	8,501
Other sectors	-	174	-	164
Long term	-	174	-	164
Financial Derivatives	-	-	-	-
Other Investment	2,370	29,575	2,923	31,240
Currency and Deposits	558	1,594	701	3,051
Central Bank	-	6	-	1,105
Short term	-	6	-	5
Long term	-	-	-	1,100
Deposit-taking corporations	558	1,587	701	1,946
Short term	388	1,587	539	1,946
Long term	171	-	162	-
Loans	-	25,297	-	25,864
Central Bank	-	1,248	-	692
Credit and loans with the IMF	-	1,248	-	692
Deposit-taking corporations	-	4,282	-	5,070
Short term	-	3,159	-	3,816
Long term	-	1,123	-	1,253
General government	-	15,774	-	16,147
Long term	-	15,774	-	16,147
Other sectors (e)	-	3,993	-	3,956
Long term	-	3,993	-	3,956
Trade Credit and Advances	820	1,674	986	1,299
Deposit-taking corporations	126	-	96	-
Short term	126	-	96	-
Other sectors (f)	694	1,674	890	1,299
Short term	694	1,674	890	1,299
Other Accounts Receivable/Payable	992	437	1,236	478
Central Bank (g)	-	437	-	478
Short term	-	437	-	478
Deposit-taking corporations	992	-	1,236	-
Short term	992	-	1,236	-
Special Drawing Rights (SDRs)	-	573	-	548
Reserve Assets	8,208	-	7,304	-
Monetary gold	893	-	760	-
Special Drawing Rights	9	-	7	-
Reserve position in the IMF	69	-	66	-
Other reserve assets	7,237	-	6,470	-
Currency and deposits	3,795	-	3,911	-
Claims on monetary authorities	1,798	-	2,167	-
Claims on other entities	1,997	-	1,745	-
Securities	3,442	-	2,559	-
Debt securities	3,442	-	2,559	-
Total Assets / Liabilities	11,186	52,811	10,887	53,586
Net International Investment Position	-	-41,625	-	-42,699
Memorandum Items	-	-	-	-
IIP- Maturity-wise breakdown	11,186	52,811	10,887	53,586
Short term	6,957	9,132	7,499	9,113
Long term	4,229	43,679	3,388	44,473

- (a) Revised
(b) Provisional
(c) Includes direct investment position of BOI, CSE and other private companies
(d) Foreign currency debt issuances are based on market value while domestic currency issuances are based on book value.
(e) Includes loans outstanding position of project loans obtained by State Owned Business Enterprises (SOBEs) .
(f) Includes outstanding trade credit position of Ceylon Petroleum Corporation and the private sector companies.
(g) Outstanding position of ACU liabilities managed by the Central Bank

Source: Central Bank of Sri Lanka

increase during the year. Despite a net inflow of transactions during 2015, the direct investment liability stock position declined to US dollars 9,972 million as at end 2015, compared to US dollars 10,572 million as at end 2014. This was primarily due to a significant reduction in market prices of voting shares held by direct investors in publicly listed companies, in addition to valuation losses due to exchange rate variations. Of the total valuation losses in the equity position of around US dollars 1.2 billion, more than 70 per cent were as a result of market price reduction of ten major publicly listed companies. Further, a debt written off by a major corporation in the natural resource exploration sector, which is categorised as other changes in volume in the IIP with no transactions recorded in the BOP, also contributed to the reduction in the direct investment intra company debt position during 2015. Of the total direct investment liability position, 42 per cent were held by companies listed in the CSE, 53 per cent were registered under the Board of Investment (BOI) and listed in the CSE and 5 per cent were held in unlisted private corporations that were not registered with the BOI.

With the participation in the Coordinated Direct Investment Survey (CDIS) of the IMF, Sri Lanka now reports the direct investment liability position on a country wise basis. Accordingly, as at end 2015, UK, Netherlands, India, Malaysia and China were the top five sources of direct investment in terms of the stock position. Furthermore, of the total foreign investment of the CSE of US dollars 5,675 million, 73 per cent amounted to the outstanding positions held by direct investors while 27 per cent contributed to the outstanding position of portfolio investors in equity less than 10 per cent of the shareholding of the individual company. The high portion of outstanding direct investors out of the total foreign investment in the CSE indicates

the relative stability of foreign investments in the CSE, with portfolio investments expected to be more volatile whereas direct investments are expected to have more long term interest in their investments. Meanwhile, the outward direct investment position recorded an increase with a number of Sri Lankan investment funds investing in privately held equity, particularly in the South East Asian region.

5.9.2 Portfolio Investment Position

Portfolio investment stock positions in terms of equity declined, while outstanding debt securities recorded a moderate increase during 2015. The equity and investment fund shares liability position, which are foreign investments in voting shares that are less than 10 per cent of the total shareholding of a Sri Lankan company, declined from US dollars 1,869 million as at end 2014, to US dollars 1,536 million as at end 2015, mainly as a result of significant valuation losses due to changes in both market prices and variations in the exchange rate of publicly listed companies, in addition to the net outflow of transactions during 2015. The outstanding stock position of debt securities held by non-residents also recorded a moderate increase from US dollars 10,795 million as at end 2014, to US dollars 10,839 million as at end 2015. This was mainly due to outflows of transactions, primarily being net outflows of Treasury bills and Treasury bonds and the maturity of an ISB of US dollars 500 million, moderating the effect of new issuances of debt securities by the government during the year. Net inflows were primarily from the issuance of two new ISBs amounting to US dollars 2,150 million and the issuance of SLDBs during the year. With the significant net outflow in foreign investment of Treasury bills and bonds during 2015, the total outstanding position of Treasury bills and bonds declined from US dollars 2,996 million as at end 2014, to US

dollars 1,844 million as at end 2015. Further the market value of outstanding ISBs increased to US dollars 6,425 million as at end 2015, from US dollars 5,287 million as at end 2014. Meanwhile, the outstanding position of non-residents holding of SLDBs, amounted to US dollars 265 million as at end 2015.

5.9.3 Other Investment Position

Currency and Deposits

Both the asset and liability positions of currency and deposits increased during 2015. The currency and deposits liability position of the Central Bank and deposit-taking corporations increased from US dollars 1,594 million as at end 2014, to US dollars 3,051 million as at end 2015. The increase in the currency and deposit position of the Central Bank was due to the international swap arrangement of US dollars 1,500 million between the Central Bank and the RBI, of which US dollars 400 million was repaid during 2015. Consequently, the currency and deposit liability position of the Central Bank increased to US dollars 1,105 million as at end 2015. Meanwhile, the asset position of currency and deposits, which captures assets of deposit taking corporations, increased moderately in 2015.

Loans

The outstanding stock of foreign loans of the government and deposit taking corporations increased while the outstanding foreign loan liabilities' position of the Central Bank and private sector corporations and SOBEs decreased during 2015. The outstanding position of foreign loans of the government, which account for around 30 per cent of total external foreign loan liabilities of the country, recorded only a marginal increase from US dollars 15,774 million as at end 2014 to US dollars 16,147 million at end 2015. This

was primarily due to the low levels of inflows, as well as exchange rate valuations of rupee denominated foreign debt, which resulted in a reduction in the stock position when expressed in US dollar terms. Loan liabilities of deposit taking corporations increased while the outstanding position of private sector loan liabilities declined marginally as a result of higher repayments, compared to loan inflows to the private sector during the year. Meanwhile, the Central Bank continued to repay the IMF-SBA loan facility, while SOBEs also recorded more repayments than loan disbursements during the year.

Trade Credit and Advances

The outstanding liability position of trade credit and advances received declined, while the asset position of trade credit and advances given increased during 2015. The outstanding liability position of trade credits and advances declined to US dollars 1,299 million at end 2015, from US dollars 1,674 million at end 2014, with increased repayments of outstanding oil bills by the CPC. The asset position of trade credits and advances given, which showed cyclical fluctuations in both directions during the year, settled at an outstanding position of US dollars 986 million as at end 2015, compared to an outstanding position of US dollars 820 million as at end 2014.

Other Accounts Receivable/Payable and Special Drawing Rights

The outstanding position of other accounts receivable, as well as the outstanding position of other accounts payable, increased during 2015. The outstanding position of other accounts receivable varies cyclically, based on the outstanding asset position of other accounts receivable of deposit taking corporations and settled at US dollars 1,236 million as at end 2015. Meanwhile, the outstanding position of other accounts payable increased to US dollars 478

million as at end 2015, with the increase in Asian Clearing Union (ACU) liabilities attributed to the Central Bank.

5.9.4 Reserve Asset Position

As of end 2015, Sri Lanka's gross official reserve assets position, which comprises foreign assets owned by the Central Bank and the government, amounted to US dollars 7.3 billion. As at end 2014, the level of gross official reserves stood at US dollars 8.2 billion. During the year, gross official reserves drained mainly due to the scheduled foreign currency debt service payments, settlement of the matured ISB, payments to the IMF-SBA and supply of liquidity to the domestic foreign exchange market. Meanwhile, total foreign assets, which comprise gross official reserves and foreign assets of deposit taking corporations, declined to US dollars 9.3 billion at end 2015, from US dollars 9.9 billion at end 2014. Although the decline in gross official reserves resulted in a decline of total foreign assets of the country, a large decline was abated by the increase in foreign assets of deposit taking corporations during the year. In terms of the adequacy of gross official reserves, the level of gross official reserves at end 2015 was equivalent to 4.6 months of imports of goods and 3.8 months of imports of goods and services, which is above the internationally accepted norm of 3 months of

Chart 5.11

Quarterly Gross Official Reserves and Total Foreign Assets

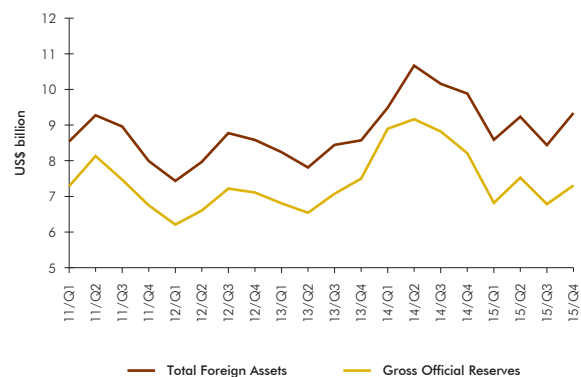


Table 5.11

Gross Official Reserves, Total Foreign Assets and Overall Balance

	US\$ million					Rs. million				
	2011	2012	2013	2014	2015 (a)	2011	2012	2013	2014	2015 (a)
	(End period position)									
1. Government foreign assets	615	631	465	635	470	70,088	80,209	60,857	83,262	67,690
2. Central Bank foreign assets	6,134	6,475	7,030	7,573	6,834	698,666	823,375	919,171	992,438	984,489
3. Gross official reserves (1+2)	6,749	7,106	7,495	8,208	7,304	768,754	903,584	980,028	1,075,700	1,052,178
4. Foreign assets of deposit-taking corporations	1,241	1,481	1,078	1,676	2,033	141,394	188,195	141,008	219,641	292,916
5. Total foreign assets (3+4) (b)	7,991	8,587	8,573	9,884	9,337	910,148	1,091,779	1,121,036	1,295,342	1,345,095
6. Reserve related liabilities (c)	2,737	2,943	2,347	1,691	2,275	311,773	373,984	306,825	221,593	327,725
7. Net International Reserves (NIR) (3-6)	4,012	4,163	5,148	6,517	5,029	456,981	529,600	673,203	854,107	724,453
8. Overall balance (d)	-1,059	151	985	1,369	-1,489	-105,712	72,619	143,603	180,904	-129,654
9. Gross official reserves in months of										
9.1 Import of goods	4.0	4.4	5.0	5.1	4.6					
9.2 Import of goods and services	3.6	3.9	4.2	4.3	3.8					
10. Total foreign assets in months of										
10.1 Import of goods	4.7	5.4	5.7	6.1	5.9					
10.2 Import of goods and services	4.3	4.7	4.8	5.1	4.9					

(a) Provisional

(b) Excludes foreign assets in the form of 'Direct investment abroad' and 'Trade credit and advances granted'

(c) The total outstanding debt of the Central Bank, excluding outstanding Special Drawing Rights (SDRs)

(d) Change in NIR position during the period

Source: Central Bank of Sri Lanka

imports. Meanwhile, total foreign assets were equivalent to 5.9 months of imports of goods and 4.9 months of imports of goods and services. The reserve asset position covered 60 per cent of the country's short term debt and liabilities as at end 2015.

5.10 External Debt and Debt Servicing

5.10.1 External Debt

The total external debt of the country increased to US dollars 44.8 billion, which accounts to 54.4 per cent of the GDP as at end 2015, compared to US dollars 42.9 billion amounting to 53.6 per cent of the GDP as at end 2014. This relatively marginal increase in outstanding external debt was mainly attributable to the moderate inflow of foreign loans, coupled with the repayment of maturing debt securities and other scheduled debt repayments. The outstanding external debt in US dollar terms increased only moderately as a result of the high level of exchange rate valuation differences. Meanwhile,

the composition of short term and long term debt remained at the same level in both the beginning and the end of year.

Outstanding foreign loans, which accounted for 58 per cent of the total external debt, were the main contributor to the total external debt as at end 2015. Outstanding portfolio investments in the form of debt securities and currency and deposit liabilities amounted to 24 per cent and 7 per cent, respectively, as at end 2015. On a sector wise breakdown, the outstanding external debt of

Chart 5.12 External Debt

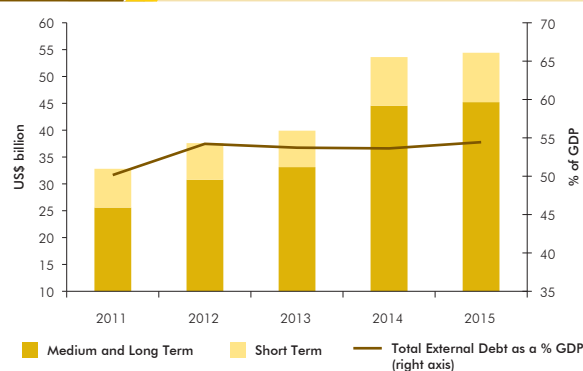


Table 5.12 Outstanding External Debt Position
(BPM6 Presentation Format)

Item	US\$ million (End period position)	
	2014(a)	2015(b)
General Government	24,132	24,681
Short term	399	33
Debt securities	399	33
Treasury bills (c)	399	33
Long term	23,733	24,647
Debt securities	7,959	8,501
Treasury bonds (c)	2,597	1,811
Sri Lanka Development bonds (d)	75	265
International sovereign bonds (e)	5,287	6,425
Loans	15,774	16,147
Central Bank	2,264	2,823
Short term	443	483
Currency and deposits	6	5
Other accounts payable	437	478
Asian Clearing Union liabilities	437	478
Long term	1,821	2,340
Special Drawing Rights (SDRs) allocation	573	548
Currency and deposits	-	1,100
Loans	1,248	692
Credit and loans with the IMF	1,248	692
Stand-By Arrangement (IMF-SBA Facility)	1,248	692
Deposit-taking Corporations	8,133	9,156
Short term	4,747	5,762
Currency and deposits (f)	1,587	1,946
Commercial banks	1,587	1,946
Loans	3,159	3,816
Commercial banks	3,159	3,816
Long term	3,386	3,393
Debt securities (e)	2,263	2,140
Commercial banks	1,037	1,112
Other deposit-taking corporations	1,226	1,028
Loans	1,123	1,253
Commercial banks	1,064	1,240
Other deposit-taking corporations	59	13
Other Sectors (g)	5,841	5,419
Short term	1,674	1,299
Trade credit and advances (h)	1,674	1,299
Long term	4,167	4,120
Debt securities (e)	174	164
Loans	3,993	3,956
Private sector corporations	1,363	1,533
State owned business enterprises and public corporations	2,630	2,423
Direct Investment: Intercompany Lending (i)	2,544	2,719
Gross External Debt Position	42,914	44,797
As a Percentage of GDP		
Gross external debt	53.6	54.4
Short term debt	9.1	9.2
Long term debt	44.5	45.2
As a Percentage of Gross External Debt		
Short term debt	16.9	16.9
Long term debt	83.1	83.1
Memorandum Items		
Debt Securities-Sectorwise Breakdown at Face Value	10,839	11,299
General government	8,564	9,024
Treasury bills	424	35
Treasury bonds	3,065	2,074
Sri Lanka Development bonds	75	265
International sovereign bonds	5,000	6,650
Deposit-taking corporations, except the Central Bank	2,100	2,100
Commercial banks	1,000	1,100
Licensed specialised banks	1,100	1,000
Other sectors	175	175

(a) Revised Source: Central Bank of Sri Lanka

(b) Provisional

(c) Based on book value

(d) Based on face value

(e) Based on market prices

(f) Includes deposits of non-resident foreign currency holders

(g) Includes private sector and state owned business enterprises

(h) Includes trade credits outstanding of the Ceylon Petroleum Corporation and private sector companies

(i) Includes inter-company borrowings and shareholder advances on BOI registered companies

the government accounted for the largest share of total external debt, with 55 per cent of the total external debt, while deposit taking corporations, private sector corporations and SOBEs, the Central Bank and direct investment enterprises contributed 20 per cent, 12 per cent, 6 per cent and 6 per cent respectively, to the total outstanding external debt as at end 2015.

5.10.2 Foreign Debt Service Payments

The debt service payments on Sri Lanka's external debt obligations increased significantly in 2015. Both capital and interest payments increased in 2015 to US dollars 3,460 million and US dollars 1,223 million, respectively, compared to US dollars 2,323 million of capital payments and US dollars 1,156 million of interest payments in 2014. Capital payments increased with the repayment of government's foreign loans of US dollars 798 million, matured ISB of US dollars 500 million, matured Treasury bonds of US dollars 678 million, the IMF-SBA facility repayment of US dollars 507 million, repayment of foreign loans by SOBEs and deposit taking corporations of US dollars 577 million and the repayment of US dollars 400 million of the RBI swap facility by the Central Bank. As a result of increased capital and interest payments and lower exports of goods, debt service payments as a percentage of export of goods and services increased significantly to 27.7 per cent in 2015, compared to 20.8 a year earlier. With the expected gradual increase in global interest rates and financing requirements that will have to be met through debt financing, the ratio of debt service payments as a percentage of exported goods and services is expected to increase further, in the backdrop of expected moderate growth in exports, unless the inflow of non-debt creating financial flows, such as FDI and services exports are increased significantly to compensate additional future borrowing requirements.

Table 5.13

External Debt Service Payments (a)

Item	US\$ million					Rs. million				
	2011	2012	2013	2014 (b)	2015 (c)	2011	2012	2013	2014 (b)	2015 (c)
1. Debt Service Payments	1,797	2,675	4,040	3,479	4,683	198,662	341,382	521,626	454,248	636,614
1.1 Amortisation	1,090	1,795	2,982	2,323	3,460	120,569	229,049	384,942	303,347	470,301
General Government	884	1,490	1,555	1,296	1,976	97,732	190,088	200,705	169,150	268,583
Project Loans	789	862	836	793	798	87,263	109,975	107,906	103,540	108,503
Debt securities	95	628	719	503	1,178	10,469	80,114	92,799	65,610	160,081
Central Bank	11	57	653	719	907	1,245	7,268	84,285	93,917	123,229
IMF	11	57	453	719	507	1,245	7,268	58,463	93,917	68,854
Swap and other liabilities	-	-	200	-	400	-	-	25,822	-	54,375
Private sector and deposit taking corporations	195	248	774	309	577	21,592	31,692	99,952	40,280	78,489
Foreign loans	195	248	774	309	577	21,592	31,692	99,952	40,280	78,489
Debt securities	-	-	-	-	-	-	-	-	-	-
1.2 Interest Payments	706	880	1,059	1,156	1,223	78,093	112,333	136,685	150,901	166,313
General Government	591	702	832	876	867	65,292	89,547	107,357	114,368	117,843
Project Loans	363	294	255	260	266	40,149	37,464	32,982	33,883	36,150
Debt securities	227	408	576	616	601	25,143	52,083	74,376	80,485	81,693
Central Bank	10	43	35	20	13	1,082	5,512	4,507	2,546	1,714
IMF	10	36	33	20	10	1,082	4,593	4,313	2,546	1,402
Swap and other liabilities	-	7	2	-	2	-	919	194	-	311
Private sector and deposit taking corporations	106	135	192	260	344	11,719	17,274	24,820	33,986	46,757
Foreign loans	106	135	145	118	185	11,719	17,274	18,663	15,470	25,097
Debt securities	-	-	48	142	159	-	-	6,157	18,517	21,660
2. Earnings from Export of Goods and Services	13,643	13,573	15,079	16,735	16,902					
3. Receipts from Export of Goods, Services, Income and Current Transfers	19,314	19,754	21,639	23,936	24,036					
4. Debt Service Ratio										
4.1 As a percentage of 2 above										
Overall Ratio	13.2	19.7	26.8	20.8	27.7					
Excluding IMF transactions	13.0	19.0	23.6	16.4	24.7					
4.2 As a percentage of 3 above										
Overall ratio	9.3	13.5	18.7	14.5	19.5					
Excluding IMF transactions	9.2	13.1	16.4	11.4	17.3					
5. Government Debt Service Payments										
5.1 Government debt service payments (d)	1,474	2,191	2,386	2,172	2,843					
5.2 As a percentage of 1 above	82.1	81.9	59.1	62.4	60.7					

(a) Sector wise classification of external debt servicing has been changed from the previous year in order to conform as far as possible with the BPM6 standard presentation format.

Source : Central Bank of Sri Lanka

(b) Revised

(c) Provisional

(d) Excludes transactions with the IMF

5.11 Exchange Rate Movements

The Sri Lankan rupee remained broadly stable during the first eight months of 2015, but depreciated substantially thereafter, as a result of the Central Bank decision to allow greater flexibility in the determination of the exchange rate. The lower than expected foreign exchange inflows, coupled with high levels of outflows, exerted significant pressure on the exchange rate during the year. This was mainly due to the reversal of foreign investments in the government rupee securities market, in anticipation of, and the

subsequent hike in interest rates in the US, and the high level of demand for foreign exchange, due to increased expenditure non-oil imports and foreign debt service payments. The resultant persistent depreciation pressure on the Sri Lankan rupee against the US dollar necessitated the continuous intervention of the Central Bank in the domestic foreign exchange market, in order to reduce volatility. Supported by the supply of US dollars 1.9 billion by the Central Bank, on a net basis, the rupee recorded a marginal depreciation of 2.42 per cent against the US dollar, during the first eight months

Table 5.14

Exchange Rate Movements

Currency	In Rupees per unit of Foreign Currency						Percentage Change over Previous Year (a)			
	End Year Rate			Annual Average Rate			End Year		Annual Average	
	2013	2014	2015	2013	2014	2015	2014	2015	2014	2015
Euro	180.45	159.42	157.37	171.51	173.47	150.84	13.19	1.30	-1.13	15.00
Indian rupee	2.11	2.07	2.17	2.21	2.14	2.12	2.13	-4.62	3.28	1.12
Japanese yen	1.25	1.10	1.20	1.32	1.24	1.12	13.48	-8.20	7.17	10.08
Pound sterling	215.58	204.04	213.57	202.08	215.16	207.99	5.65	-4.46	-6.08	3.45
US dollar	130.75	131.05	144.06	129.11	130.56	135.94	-0.23	-9.03	-1.11	-3.96
SDR	201.36	189.86	199.63	196.19	198.35	190.16	6.05	-4.89	-1.09	4.31
Effective Exchange Rate Indices (b) (c)	End Year Index						Percentage Change over Previous Year			
	End Year Index			Annual Average Index			End Year Index		Annual Average Index	
	2013	2014	2015	2013	2014	2015	2014	2015	2014	2015
NEER 24-currencies	90.97	96.44	93.53	91.39	91.99	96.61	6.02	-3.02	0.66	5.02
REER 24-currencies	100.30	106.30	103.90	100.61	101.94	106.18	5.97	-2.26	1.32	4.16

(a) Changes computed on the basis of foreign currency equivalent of Sri Lanka rupees. The sign (-) indicates depreciation of Sri Lanka rupee against each currency, respectively. Source: Central Bank of Sri Lanka

(b) The Nominal Effective Exchange Rate (NEER) is a weighted average of nominal exchange rates of 24 trading partner and competitor countries. Weights are based on the trade shares reflecting the relative importance of each currency in each of the currency baskets. The Real Effective Exchange Rate (REER) is computed by adjusting the NEER for inflation differentials with respect to each currency in the basket. A minus sign indicates depreciation. CCPI was used for REER computation.

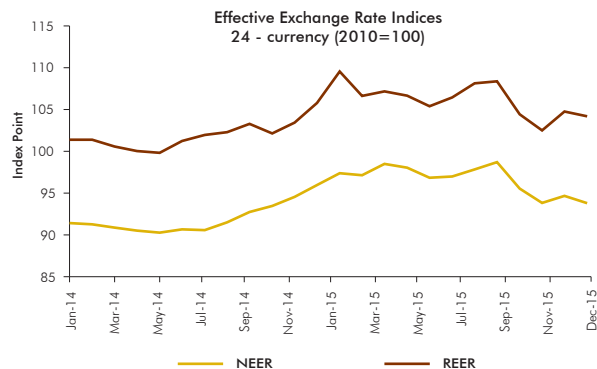
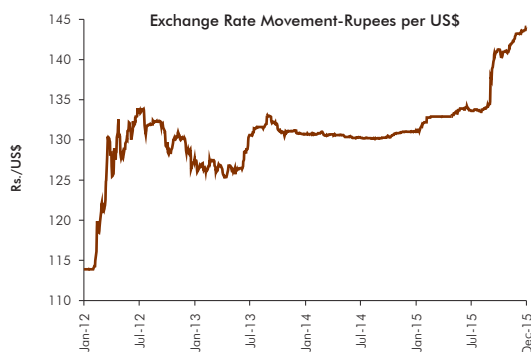
(c) The exchange rates have been defined in terms of indices so that the appreciation/depreciation of the rupee relative to other currencies is directly reflected by a rise/fall in the values of the effective exchange rate indices, respectively.

of the year. However, on 03 September 2015, the Central Bank decided to limit its intervention in the domestic foreign exchange market and allowed the exchange rate to be largely determined by the demand and supply conditions of the market. This resulted in the Sri Lankan rupee depreciating by 6.64 per cent against the US dollar, during the period from 04 September to end 2015. Overall, the rupee depreciated against the US dollar by 9.03 per cent to Rs. 144.06 as of end 2015. The annual average exchange rate of the rupee against the US dollar also depreciated to Rs. 135.94 in 2015 from Rs. 130.56 in 2014.

Meanwhile, the Sri Lankan rupee showed a mixed performance against other major currencies during 2015, depending on the movements of cross currency exchange rate. Accordingly, the rupee depreciated against the pound sterling by 4.46 per cent, the Japanese yen by 8.20 per cent and the Indian rupee by 4.62 per cent, while appreciating against the euro by 1.30 per cent. Reflecting the overall impact of the movements of major currencies against the US dollar in international markets, the rupee depreciated against the Special Drawing Rights (SDR) by 4.89 per cent during 2015.

Chart 5.13

Exchange Rate Movements



5.11.1 Nominal and Real Effective Exchange Rates

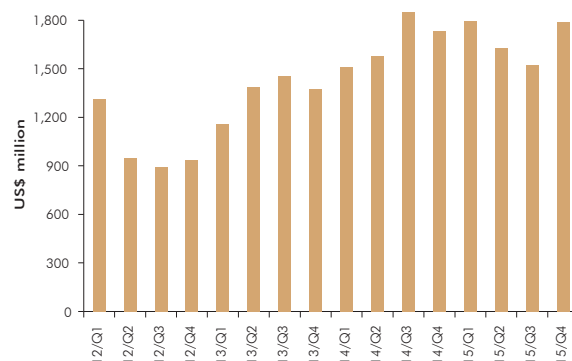
The 5-currency and the 24-currency effective exchange rate indices depreciated during 2015. Reflecting cross currency exchange rate movements and the nominal depreciation of the Sri Lankan rupee against most of the currencies in the currency basket, both the 5-currency and the 24-currency Nominal Effective Exchange Rate (NEER) indices (2010=100) depreciated by 4.12 per cent and 3.02 per cent, respectively, during 2015. The Real Effective Exchange Rate (REER), which takes into account the inflation differentials amongst countries, in addition to the variation in nominal exchange rates, also depreciated during this period. Accordingly, both the 5-currency and the 24-currency REER indices depreciated by 3.07 per cent and 2.26 per cent, respectively, during the year. This depreciation of the REER indices attributed to the depreciation of the NEER indices and the relatively low levels of domestic inflation, compared to most trading partners and competitors.

5.11.2 Developments in the Domestic Foreign Exchange Market

The volume of transactions in the domestic foreign exchange market contracted in 2015, in contrast to the expansion observed in 2014. This was mainly due to the decline in the volume of spot transactions, which accounted for 50.5 per cent of total transactions. The total volume of spot transactions declined significantly to US dollars 6,867 million in 2015, compared to US dollars 8,804 million in 2014, mainly due to the slowdown in external trade and limited foreign currency inflows to the domestic foreign exchange market. However, the total volume of forward transactions increased marginally to US dollars 6,732 million in 2015, in comparison to US dollars 6,672 million in 2014. Overall, the volume of total inter-bank foreign

Chart 5.14

Quarterly Inter - Bank Forward Transaction Volumes



exchange transactions decreased to US dollars 13,600 million in 2015, compared to US dollars 15,475 million in 2014. Meanwhile, the Central Bank intervened in the domestic foreign exchange market as a net supplier throughout the year. Accordingly, the Central Bank supplied US dollars 3,429 million to the market, while absorbing US dollars 179 million, resulting in a supply of US dollars 3,250 million, on a net basis, during the year. However, the provision of foreign exchange during the last four months of the year was limited to cover the demand coming from foreign investors who moved their funds away from the government securities market and to finance some oil import bills.

The forward premia for three-months and six-months remained lower than interest rate differentials, on average, in 2015. This reflected market expectations of continued future inflows into the domestic foreign exchange market. However, the forward premia for one-month remained above the interest rate differential during most parts of 2015, indicating the market expectations of a depreciation of the exchange rate in the near term. The expectation of a near term depreciation of the rupee against the US dollar was also reflected by the Net Open Position (NOP) of commercial banks, which was maintained on average, at positive levels during year.

