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Press Release

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External Sector Performance–May 2016

Overview

Sri Lanka's external sector showed a mixed performance during May 2016 with a widening of the trade deficit, continued growth in tourist earnings and an increase in workers' remittances. The trade deficit widened on account of the decline in export earnings, mainly due to the subdued performance in exports of tea, rubber products and textiles and garments, amidst the marginal growth in import expenditure on a year-on-year basis. However, the widening of the trade deficit on a cumulative basis as of end May 2016 was offset to some extent by continuous inflows on account of tourism, increased workers' remittances and moderate inflows to the financial account during the period.

Export Performance

Earnings from exports declined by 12.0 per cent to US dollars 776 million in May 2016, from US dollars 883 million recorded in May 2015, reflecting contractions in all major categories of exports. The subdued performance in tea exports, rubber

products and textiles and garments contributed mainly to the overall decline in export earnings. Export earnings from tea dropped substantially in May 2016 reflecting declines in both average export price and volume of export. Average export price of tea decreased by 5.3 per cent to US dollars 4.24 per kilogram owing to lower demand from the Middle East and Russia while export volume also declined by 23.0 per cent to 21.26 million kilograms. Earnings from the exports of rubber products declined during the month exhibiting declines in all its sub categories, particularly rubber tires, and surgical and other gloves. Earnings from textile and garment exports, the main export product of Sri Lanka which performed well during the past few months, also declined in May 2016 reflecting lower garment exports to both traditional and non-traditional markets. However, earnings from gems, diamonds and jewellery, plastics and articles thereof, transport equipment, rubber and unmanufactured tobacco exports showed some improvement in May 2016 in comparison to May 2015.

Cumulative earnings from exports during the first five months of 2016 contracted by 6.0 per cent, year-on-year, to US dollars 4,211 million largely due to a reduction in export earnings from transport equipment, petroleum products, tea and spices. The leading markets for merchandise exports of Sri Lanka during the first five months of 2016 were the USA, UK, India, Germany and Italy, accounting for about 54 per cent of the total exports.

Table 1: Earnings from Exports

Category	May 2015 (US\$ mn)	May 2016 (US\$ mn)	Change (%)	Jan- May 2015 (US\$ mn)	Jan- May 2016 (US\$ mn)	Change (%)
1. Industrial exports	661.3	604.2	(8.6)	3,440.5	3,302.7	(4.0)
Rubber products	76.2	57.1	(25.1)	332.5	308.7	(7.1)
Textiles and garments	392.9	374.7	(4.6)	1,981.0	2,084.5	5.2
Petroleum products	25.2	16.9	(33.2)	175.8	109.2	(37.9)
Printing industry products	5.7	1.5	(73.0)	17.4	8.1	(53.6)
Base metals and articles	5.5	5.4	(3.5)	25.8	29.2	13.3
Plastics and articles thereof	4.8	5.4	11.4	26.6	29.2	10.0
Transport equipment	6.4	7.0	10.1	178.0	59.5	(66.5)
Gems, Diamonds and Jewellery	24.6	27.7	12.9	156.4	126.5	(19.1)
Other	119.9	108.5	(9.5)	547.1	547.8	0.1
2. Agricultural exports	217.0	168.7	(22.2)	1,018.0	890.5	(12.5)
Tea	123.6	90.2	(27.1)	561.0	496.5	(11.5)
Minor agricultural products	16.0	10.8	(32.8)	71.5	46.9	(34.5)
Coconut	32.9	27.9	(15.0)	142.3	142.7	0.3
Sea Food	14.9	12.6	(15.3)	72.3	70.5	(2.5)
Spices	21.4	19.4	(9.0)	130.8	93.4	(28.6)
Rubber	2.2	2.5	14.4	11.9	15.1	26.7
Other	6.0	5.3	(11.6)	28.1	25.4	(9.6)
3. Mineral and other	4.3	3.4	(21.3)	21.8	17.7	(18.7)
Total exports	882.5	776.3	(12.0)	4,480.3	4,210.9	(6.0)

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

Import Performance

Reversing the year-on-year declining trend that prevailed during the last ten months, expenditure on imports grew marginally by 0.3 per cent, to US dollars 1,590 million in May 2016 compared to US dollars 1,585 million in May 2015. This growth was largely contributed by the significant increase registered in import expenditure on investment goods, despite the decline recorded in consumer goods and

intermediate goods imports. Import expenditure on machinery and equipment and building materials increased considerably in May 2016 reflecting increases in almost all sub categories. In addition, import expenditure on textile and textile articles increased during the month mainly due to considerable growth recorded in fabric and fiber imports. Further, expenditure on the importation of gold increased substantially in May 2016. Also, import expenditure on rubber and articles thereof and chemical products increased significantly during the month. However, in May 2016, expenditure on fuel imports declined substantially due to the considerable decline recorded in the average import prices of crude oil, refined petroleum products and coal, despite significant increase in the volume of coal and refinery petroleum products. Even though the average import price of crude oil, which was US dollars 48.84 per barrel in May 2016, declined compared to US dollars 63.09 per barrel recorded in May 2015, it increased compared to US dollars 44.05 per barrel in April 2016, reflecting the increase of crude oil prices in the international market. Meanwhile, reflecting mainly the impact of tax increases for vehicle imports from the budget 2016, import expenditure on personal motor vehicles and transport equipment, categorized under consumer goods and investment goods, dropped largely due to considerable declines recorded in motor cars, hybrid electric vehicles and road vehicles, particularly auto-trishaws and commercial cabs. In addition, import expenditure on base metals, rice and mineral products also declined considerably in May 2016.

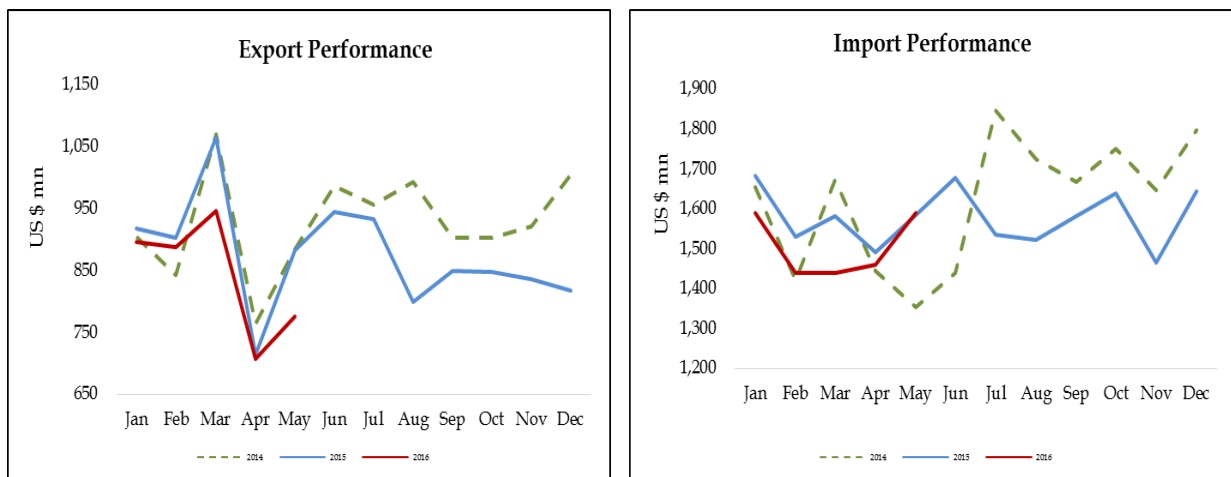
On a cumulative basis, expenditure on imports during the first five months of 2016 contracted by 2.8 per cent to US dollars 7,645 million, mainly due to the declines recorded in fuel, transport equipment and rice imports. China, India, Japan, Singapore and UAE were the main import origins during the first five months of 2016, which accounted for about 56 per cent of total imports.

Table 2: Expenditure on Imports

Category	May 2015 (US\$ mn)	May 2016 (US\$ mn)	Change (%)	Jan- May 2015 (US\$ mn)	Jan- May 2016 (US\$ mn)	Change (%)
1. Consumer goods	348.8	328.1	(5.9)	1,916.1	1,753.6	(8.5)
Food and beverages	131.9	121.5	(7.9)	743.8	638.3	(14.2)
Dairy products	16.0	23.0	43.7	96.6	97.1	0.5
Seafood	15.2	20.6	35.4	73.1	98.7	35.0
Sugar and confectionery	17.4	14.3	(17.8)	123.2	108.7	(11.8)
Cereals and milling industry products	20.5	2.3	(88.8)	128.7	9.2	(92.8)
Other food and beverages	62.8	61.3	(2.5)	322.2	324.7	0.8
Non-food consumer goods	216.8	206.7	(4.7)	1,172.3	1,115.3	(4.9)
Vehicles	93.0	63.5	(31.7)	477.9	362.4	(24.2)
Home appliances	12.3	20.1	62.8	86.8	113.5	30.9
Other non- food consumables	111.5	123.0	10.3	607.6	639.4	5.2
2. Intermediate goods	889.2	851.4	(4.2)	4,042.3	3,870.7	(4.2)
Textiles and textile articles	205.2	234.6	14.3	974.1	1,131.3	16.1
Fuel	264.3	187.1	(29.2)	1,186.0	873.6	(26.3)
Diamonds and precious stones and metals	19.7	49.0	148.5	101.1	168.8	66.9
Rubber and articles thereof	18.8	43.6	131.9	97.7	123.3	26.2
Base metals	49.3	28.3	(42.7)	210.2	133.7	(36.4)
Other	331.8	308.9	(6.9)	1,473.0	1,439.9	(2.2)
3. Investment goods	345.8	408.8	18.2	1,900.7	2,016.7	6.1
Machinery and equipment	174.1	222.0	27.5	950.1	1,147.2	20.8
Building materials	100.0	137.5	37.5	509.0	622.8	22.4
Transport equipment	71.6	49.0	(31.5)	439.5	244.1	(44.5)
Other investment goods	0.1	0.3	123.6	2.1	2.6	19.3
4. Unclassified	1.6	1.4	(12.7)	9.0	4.3	(52.6)
Total imports	1,585.5	1,589.8	0.3	7,868.0	7,645.2	(2.8)

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

Figure 1: Export and Import Performance



Source: Central Bank of Sri Lanka
Sri Lanka Customs

Trade Balance

The deficit in the trade account in May 2016 expanded to US dollars 814 million from US dollars 703 million in May 2015. Further, the cumulative trade deficit during the first five months of 2016 also increased to US dollars 3,434 million from US dollars 3,388 million recorded during the same period of 2015.

Earnings from Tourism

Tourist arrivals recorded a marginal growth of 2.2 per cent, year-on-year, in June 2016, with 118,038 tourists arriving during the month. The significant decline in tourist arrivals from Russia, Belgium, Norway and Maldives were the main reason for this low growth. However, cumulative tourist arrivals during the first six months of 2016 increased by 16.2 per cent to 964,267 compared to the corresponding period of 2015. The top five sources of tourist arrivals up to June 2016 were India, China, UK, Germany and France, accounting for 52.6 per cent of the total tourist arrivals during the period. Cumulative earnings from tourism¹ increased to US dollars 1,598.2 million during the first six months of 2016 compared to US dollars 1,375.7 million recorded during the same period in 2015.

¹ This provisional estimate may be revised once the Sri Lanka Tourism Development Authority releases its survey results on average stay period and average spending per day estimates for 2016.

Workers' Remittances

Receipts from workers' remittances increased by 11.1 per cent to US dollars 597.2 million in May 2016 in comparison to the decline of 1.4 per cent recorded in the previous month. Accordingly, cumulative inflows from workers' remittances during the first five months of 2016 amounted to US dollars 2,968.6 million, an increase of 5.9 per cent from the corresponding period of 2015.

Financial Flows

During the first five months of the year, foreign investments in the Colombo Stock Exchange (CSE) recorded a net outflow of US dollars 37.3 million, including net outflows of US dollars 38.6 million from the secondary market and inflows of US dollars 1.3 million to the primary market. The government securities market recorded a net outflow of US dollars 442.8 million during the first five months of 2016 compared to a net outflow of US dollars 61.7 million during the corresponding period of 2015. Long term loans to the government recorded a net outflow of US dollars 20.1 million during the first five months of 2016, compared to a net inflow of US dollars 82.6 million during the corresponding period of 2015.

Overall Balance of Payments (BOP) Position

During the first five months of 2016, the overall BOP is estimated to have recorded a deficit of US dollars 1,142.3 million in comparison to a deficit of US dollars 1,307.4 million recorded during the corresponding period of 2015.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end May 2016 amounted to US dollars 5.6 billion, equivalent to 3.6 months of imports, while total foreign assets amounted to US dollars 7.7 billion, equivalent to 4.9 months of imports.

The rupee recorded a modest depreciation of 1.1 per cent against the US dollar during the period from end 2015 to 08th August 2016. Furthermore, reflecting the cross currency movements, the rupee also depreciated against the euro by 2.6 per

cent, the Japanese yen by 16.2 per cent, the Canadian dollar by 6.0 per cent, the Australian dollar by 5.2 per cent and the Indian rupee by 0.6 per cent during this period while appreciating against the pound sterling by 12.1 per cent.

Table 3: Summary of External Sector Performance (a)

Category	May 2015 US\$ mn	May 2016 US\$ mn	Change (%)	Jan- May 2015 US\$ mn	Jan-May 2016 US\$ mn	Change (%)
Exports	882.5	776.3	-12.0	4,480.3	4,210.9	-6.0
Imports	1,585.5	1,589.8	0.3	7,868.0	7,645.2	-2.8
Trade Balance (surplus+)/deficit(-)	-702.9	-813.5	15.7	-3,387.7	-3,434.3	1.4
Earnings from Tourism	188.2(b)	207.2	10.1	1,184.4(b)	1,402.5	18.4
Workers' Remittances	537.7	597.2	11.1	2,803.1	2,968.6(b)	5.9
Inflows to the CSE (Net) (c)	13.3	-17.8	-233.8	58.2	-37.3	-164.1
Inflows to the Government (d)	96.0	290.8	202.9	976.3	814.5	-16.6
of which,						
Treasury Bills and Bonds	10.1	189.7	1,769.5	526.1	407.4	-22.6
International Sovereign Bonds	-	-	-	-	-	-
Long term Loans	79.0	100.6	27.3	406.0	396.5	-2.3
Foreign Direct Investment (e)	-	-	-	346.4	164.5	-52.5

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

- (a) Provisional
(b) Revised
(c) Includes secondary and primary market transactions
(d) Inflows to the government include capital and current transfers to the government, inflows from the investments in Treasury bills and Treasury bonds by foreign investors, International Sovereign Bonds and long-term loans of the government.
(e) Data available for the first three months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the Board of Investment of Sri Lanka.