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Press Release

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External Sector Performance - December 2016

Overview

The performance of Sri Lanka's external sector was mixed in December 2016. The trade deficit expanded as a result of the considerable increase in import expenditure, which more than offset the growth in export earnings during the month of December 2016. On a positive note, both earnings from tourism and workers' remittances grew at a healthy rate, year-on-year, during the month. The government securities market witnessed a net outflow in December, while some inflows to the Colombo Stock Exchange (CSE) were observed.

Export Performance

Earnings from exports amounted to US dollars 859 million in December 2016 registering a 4.7 per cent growth, year-on-year, reflecting increases in all major categories of exports. The performance of industrial and agricultural exports, appears to have benefitted from the gradual improvements in global economic conditions and improved trade relations with major trade partners, which in turn, led exports to expand in December.

The largest contribution to the growth in exports was from industrial exports supported by the substantial increase in exports of printing industry products and rubber products. Accordingly, earnings from industrial exports, which account for about 76 per cent of total exports, grew by 4.4 per cent, year-on-year, to US dollars 655 million in December 2016. Export earnings from printing industry products increased by more than two fold compared to the same month in 2015 mainly as a result of the increase in exports of currency notes. Continuing the year-on-year growth trend observed since August 2016, export earnings from rubber products increased by 6.7 per cent, mainly due to growth in exports of surgical and other gloves. However, earnings from garment exports, which account for around 43 per cent of total export earnings, declined marginally by 0.3 per cent, year-on-year, to US dollars 368 million due to lower demand from the USA market, despite the growth in exports to non-traditional markets, such as Canada, China, Australia and the UAE as well as to the European Union (EU) market. Earnings from all categories of industrial exports increased during the month, except food, beverages and tobacco.

Earnings from agricultural exports, which account for about 23 per cent of total exports, grew by 5.1 per cent, year-on-year, to US dollars 201 million in December 2016, led by spices, coconut and tea exports. Earnings from spices exports grew notably by 31.1 per cent, year-on-year, reflecting a growth in relation to all varieties of spices, particularly pepper and nutmeg. Sound performance of both kernel and non-kernel coconut products led earnings from coconut exports to grow by 20.4 per cent, year-on-year. Earnings from tea exports in December 2016 increased by 4.4 per cent, year-on-year, due to a higher average export price despite the decline in export volume. In addition, earnings from seafood exports continued its impressive growth momentum observed since July 2016 after lifting the ban on seafood imports from Sri Lanka to the EU.

On a cumulative basis, exports earnings during 2016 at US dollars 10,310 million, contracted by 2.2 per cent, compared to the previous year, despite the positive growth recorded in the latter part of 2016. The largest contribution to this decline came from transport equipment as a result of the base effect, while petroleum products, tea and spices also contributed negatively. Low commodity prices in the

international market and reduced domestic output of export oriented agricultural products contributed to the decline in exports. However, export earnings from textiles and garments, base metals and articles, leather, travel goods and footwear and machinery and mechanical appliances increased in 2016 when compared with 2015.

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

Table 1: Export Earnings (a)

Category	December 2015 (b) (US\$ mn)	December 2016 (US\$ mn)	Change (%)	Jan-Dec 2015 (b) (US\$ mn)	Jan-Dec 2016 (US\$ mn)	Change (%)
1. Industrial exports	627.1	654.9	4.4	8,017.1	7,940.1	(1.0)
Textiles and garments	393.4	393.6	0.0	4,820.2	4,884.1	1.3
o/w Garments	369.2	368.1	(0.3)	4,555.6	4,602.7	1.0
Rubber products	58.5	62.4	6.7	761.2	767.9	0.9
Food beverages and tobacco	27.1	23.7	(12.6)	306.8	323.7	5.5
Petroleum products	30.3	30.8	1.7	373.9	286.9	(23.3)
Transport equipment	5.5	7.7	39.3	243.7	131.5	(46.0)
Chemical products	10.8	11.1	2.8	126.4	126.3	(0.1)
Wood and paper products	9.2	12.0	30.0	112.4	116.7	3.8
Base metals and articles	4.3	6.9	61.4	55.8	89.6	60.5
Printing industry products	4.5	12.1	168.0	45.7	42.4	(7.2)
Other	83.5	94.7	13.4	1,171.1	1,171.1	0.0
2. Agricultural exports	191.1	200.9	5.1	2,481.5	2,326.1	(6.3)
Tea	105.2	109.8	4.4	1,340.5	1,269.0	(5.3)
Rubber	2.3	3.2	41.6	26.1	32.7	25.0
Coconut	23.7	28.5	20.4	351.7	366.0	4.0
Spices	24.4	32.0	31.1	377.4	317.1	(16.0)
Seafood	15.0	17.4	16.0	163.1	169.6	4.0
Minor agricultural products	14.4	5.7	(60.6)	160.4	114.1	(28.9)
Unmanufactured tobacco	3.7	2.5	(31.2)	31.8	31.2	(2.0)
Vegetables	2.4	1.7	(29.8)	30.5	26.5	(13.0)
3. Mineral and other	2.2	3.2	41.9	47.9	43.5	(9.1)
Total exports	820.5	859.0	4.7	10,546.5	10,309.7	(2.2)

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

(a) Provisional
(b) Revised

Import Performance

A double digit growth in imports was recorded for a third consecutive month in December 2016. Accordingly, expenditure on imports at US dollars 1,816 million increased by 10.4 per cent, year-on-year, during the month, due to the increase in expenditure on the import of intermediate goods followed by investment goods. However, the year-on-year declining trend in expenditure on consumer goods that started in December 2015 continued in December 2016.

Expenditure on intermediate goods, which accounts for about 55 per cent of total imports, increased by 17.3 per cent, year-on-year, in December 2016, passing the US dollars one billion mark for the first time since August 2014. The increase in expenditure on fuel imports by 51.8 per cent largely contributed to the growth in imports. This included a 113.8 per cent growth in refined petroleum imports and a 10.4 per cent growth in coal imports due to higher thermal and coal power generation as a result of the prevailing drought conditions in the country. Import expenditure on diamonds, precious stones and metals also grew substantially in December 2016, mainly due to increased imports of gold. In addition, base metals led by iron and non-alloy steel and copper wires and mineral products, led by cement clinkers, also contributed to the growth in import expenditure. However, expenditure on fertiliser, textiles and textile articles, wheat and maize, and food preparation imports declined in December 2016 when compared with December 2015.

Expenditure on investment goods, which accounts for about 25 per cent of total imports, increased by 13.1 per cent, year-on-year, in December 2016. Continued expansion in the construction sector was a key reason for the growth in investment goods imports. Import expenditure on machinery and equipment increased by 12.2 per cent, year-on-year, in December 2016, led by engineering equipment, electrical machinery and equipment, and office machines. Expenditure on building material imports increased by 15.2 per cent, during the month mainly due to increased imports of cement, iron and steel and articles thereof. In addition, import expenditure on transport equipment increased owing to higher expenditure on railway track construction equipment and chassis, despite a substantial decline in

imports of road vehicles, such as auto-trishaws and cabs used for commercial purposes.

Expenditure on consumer goods imports contracted in December 2016 by 7.7 per cent, reflecting declines in both food and beverages and non-food consumer good categories. Nevertheless, within the food and beverages category, the import of sugar and confectionery, dairy products and beverages increased during the month. With respect to non-food consumer goods, import expenditure on medical and pharmaceuticals, vehicles, home appliances, and clothing and accessories declined.

On a cumulative basis, expenditure on imports during 2016 at US dollars 19,400 million, reflected an increase of 2.5 per cent, compared to the previous year, mainly due to higher imports of machinery and equipment, textiles and textile articles and gold. In addition, building material, sugar and confectionery and medical and pharmaceuticals also contributed considerably to the increase in import expenditure. However, expenditure on personal vehicles, fuel and fertiliser imports declined in 2016 from the level observed in 2015.

China, India, the UAE, Singapore and Japan were the main import origins in 2016, accounting for about 57 per cent of total imports.

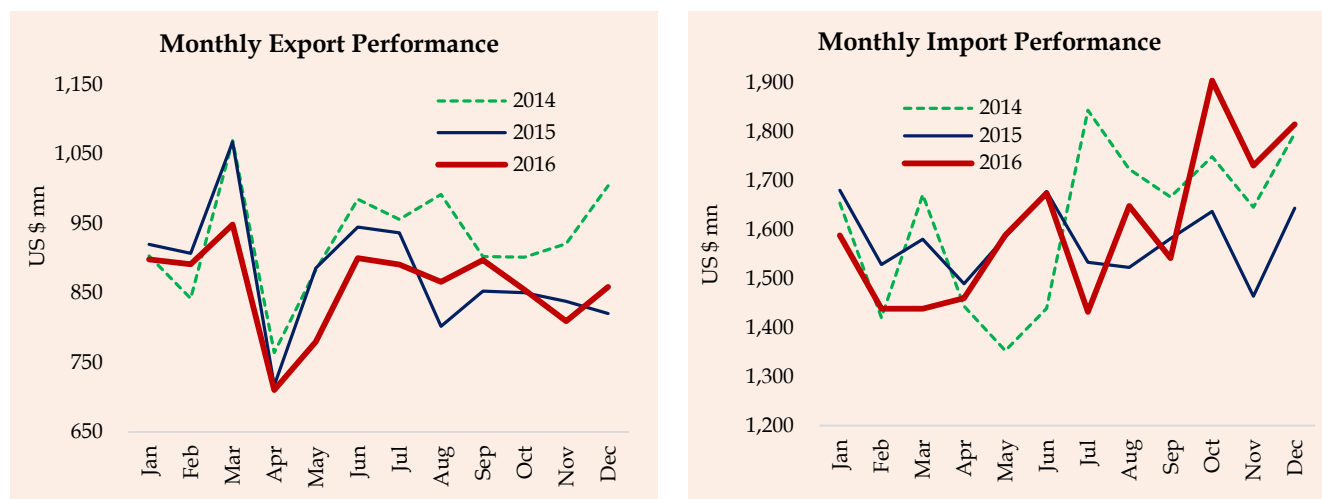
Table 2: Import Expenditure (a)

Category	December 2015 (US\$ mn)	December 2016 (US\$ mn)	Change (%)	Jan-Dec 2015 (US\$ mn)	Jan-Dec 2016 (US\$ mn)	Change (%)
1. Consumer goods	383.8	354.2	(7.7)	4,713.5	4,319.0	(8.4)
Food and beverages	149.5	142.6	(4.6)	1,627.8	1,627.4	(0.0)
Vegetables	48.0	40.6	(15.5)	396.4	373.7	(5.7)
Sugar and confectionery	16.4	22.5	37.1	254.4	344.6	35.5
Dairy products	21.3	29.6	39.0	250.9	249.3	(0.6)
Seafood	27.1	19.1	(29.5)	221.1	237.3	7.3
Beverages	6.3	6.7	6.1	77.4	97.9	26.5
Other food and beverages	30.4	24.2	(20.4)	427.7	324.7	(24.1)
Other consumer goods	234.4	211.6	(9.7)	3,085.7	2,691.5	(12.8)
Vehicles	65.7	58.3	(11.2)	1,359.6	794.8	(41.5)
Medical and pharmaceuticals	41.2	39.2	(5.0)	459.8	525.8	14.3
Other non- food consumables	127.5	114.2	(10.4)	1,266.2	1,371.0	8.3
2. Intermediate goods	855.4	1,003.6	17.3	9,638.2	9,870.0	2.4
Fuel	216.2	328.2	51.8	2,699.6	2,481.0	(8.1)
o/w Crude oil	88.8	81.6	(8.1)	739.0	596.0	(19.4)
Refined petroleum	102.5	219.1	113.8	1,801.9	1,688.4	(6.3)
Coal	24.9	27.5	10.4	158.7	196.7	23.9
Textiles and textile articles	241.4	227.9	(5.6)	2,296.2	2,704.9	17.8
Base metals	31.1	59.9	92.3	470.6	456.1	(3.1)
Wheat and maize	35.0	25.6	(26.6)	357.2	249.2	(30.2)
Fertiliser	28.0	7.3	(74.0)	289.6	136.9	(52.7)
Diamonds, precious stones and metals	14.2	73.8	421.3	161.5	514.4	218.5
o/w Gold	0.6	55.3	9,428.7	42.4	374.0	782.9
Mineral products	9.3	21.0	125.2	230.8	222.1	(3.8)
o/w Cement clinkers	6.8	19.0	180.1	197.3	188.9	(4.3)
Other	280.2	259.9	(7.2)	3,132.7	3,105.4	(0.9)
3. Investment goods	404.3	457.2	13.1	4,567.0	5,198.0	13.8
Machinery and equipment	223.8	251.1	12.2	2,278.1	2,740.7	20.3
Building material	128.5	148.1	15.2	1,352.0	1,568.7	16.0
Transport equipment	50.9	55.4	8.8	930.9	880.2	(5.5)
Other investment goods	1.0	2.6	148.5	5.9	8.5	42.3
4. Unclassified imports	1.1	1.1	(0.2)	15.9	13.1	(17.9)
Total imports	1,644.7	1,816.1	10.4	18,934.6	19,400.1	2.5

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

(a) Provisional

Figure 1: Export and Import Performance



Sources: Central Bank of Sri Lanka
Sri Lanka Customs

Trade Balance

Continuing the trend observed in the last two months, the deficit in the trade balance widened substantially to US dollars 957 million in December 2016 compared to US dollars 824 million in December 2015. The cumulative trade deficit during 2016 increased to US dollars 9,090 million from US dollars 8,388 million recorded in 2015.

Earnings from Tourism

In December 2016, tourist arrivals increased by 9.1 per cent, year-on-year, to 224,791. Accordingly, tourist arrivals during 2016 grew by 14.0 per cent to 2,050,832 from 1,798,380 during 2015. India, China, the UK, Germany and France maintained their positions as the top five sources of tourist arrivals during the year 2016. These five countries accounted for 51.0 per cent of total tourist arrivals during this period. Meanwhile, earnings from tourism¹ increased by 12.9 per cent, year-on-year, to US dollars 385.7 million in December 2016. On a cumulative basis, earnings from tourism increased to US dollars 3,518.5 million during the year 2016 from US dollars 2,980.7 million recorded in 2015.

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

Workers' Remittances

Receipts from workers' remittances improved by 10.7 per cent, year-on-year, to US dollars 684.6 million during December 2016 from US dollars 618.5 million in December 2015. Accordingly, cumulative inflows from workers' remittances during 2016 amounted to US dollars 7,241.5 million, recording a growth of 3.7 per cent, in comparison to US dollars 6,980.3 million during 2015.

Financial Flows

Foreign investments in the CSE recorded a net inflow of US dollars 27.8 million in December 2016. Cumulative foreign investments in the CSE during the year 2016 recorded a net inflow of US dollars 19.1 million. This included a net inflow of US dollars 4.9 million from the secondary market and an inflow of US dollars 14.2 million to the primary market. Foreign investments in the government securities market continued to record a net outflow for a third straight month amounting to US dollars 95.9 million in December 2016. On a cumulative basis, the net outflow of foreign investments in the government securities market amounted to US dollars 324.3 million during the year 2016 in comparison to a net outflow of US dollars 1,093.4 million during 2015. Long term loans to the government increased to US dollars 1,287.0 million on a net basis during 2016, in comparison to a net inflow of US dollars 469.6 million during 2015.

Overall BOP Position

During 2016, the overall BOP is estimated to have recorded a deficit of US dollars 499.7 million, in comparison to a deficit of US dollars 1,488.7 million recorded during 2015.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end December 2016 amounted to US dollars 6.0 billion, equivalent to 3.7 months of imports. Meanwhile, total foreign assets, which include gross official reserves and foreign assets owned by deposit taking corporations, stood at US dollars 8.4 billion, equivalent to 5.2 months of imports.

The rupee, which depreciated by 3.8 per cent against the US dollar in 2016, recorded a further depreciation of 1.2 per cent by 24 March 2017. Reflecting cross currency movements, the rupee also depreciated against the euro by 3.2 per cent, the pound sterling by 2.8 per cent, the Japanese yen by 5.5 per cent, the Canadian dollar by 1.9 per cent, the Australian dollar by 6.1 per cent and the Indian rupee by 4.8 per cent during the year up to 24 March 2017.

Table 3: Summary of External Sector Performance (a)

Category	Dec 2015 (US\$ mn)	Dec 2016 (US\$ mn)	Change (%)	Jan- Dec 2015 (US\$ mn)	Jan-Dec 2016 (US\$ mn)	Change (%)
Exports	820.5(b)	859.0	4.7	10,546.5(b)	10,309.7	(2.2)
Imports	1,644.7	1,816.1	10.4	18,934.6	19,400.1	2.5
Trade Balance (surplus+)/deficit(-)	-824.2(b)	-957.1	16.1	-8,388.1(b)	-9,090.3	8.4
Earnings from Tourism (b)	341.6	385.7	12.9	2,980.7	3,518.5	18.0
Workers' Remittances	618.5	684.6	10.7	6,980.3	7,241.5	3.7
Inflows to the CSE (Net) (c)	-3.4	27.8	(907.9)	4.0	19.1	375.3
Inflows to the Government (d)	339.8	292.5	(13.9)	4,705.0	4,955.3	5.3
of which,						
Treasury Bills and Bonds	5.8	26.1	346.4	1,210.9	1,238.2	2.3
International Sovereign Bonds	-	-	-	2,150.0	1,500.0	(30.2)
Syndicated Loans	-	-	-	-	700.0	-
Long Term Loans (e)	320.5	236.5	(26.2)	1,267.8	1,462.9	15.4
Foreign Direct Investment (f)	-	-	-	677.6	444.5	(34.4)

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

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