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Press Release

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External Sector Performance - April 2017

Overview

Sri Lanka's external sector displayed a mixed performance in April 2017. Although export earnings increased in April 2017, the higher growth in import expenditure resulted in an expansion of the trade deficit. Despite the increase in tourist earnings in April 2017, the decline in workers' remittances together with the expanded trade deficit moderated the performance of the external current account. However, the financial account of the Balance of Payments (BOP) was supported by continued foreign inflows to the Colombo Stock Exchange (CSE) and the government securities market in April 2017.

Export Performance

Earnings from exports at US dollars 795 million in April 2017 increased for the second consecutive month, registering a year-on-year growth of 11.9 per cent. This high growth was mainly driven by the low base effect which registered US dollars 710 million in April 2016, the lowest monthly export value since April 2013.

Earnings from industrial exports, which represent about 75 per cent of total exports, grew by 8.6 per cent (year-on-year) to US dollars 595 million in April 2017 mainly due to higher exports of transport equipment, petroleum products and textiles and garments. Earnings from transport equipment increased by nearly fivefold to US dollars 27 million during the

month, as a result of the export of a general cargo vessel worth US dollars 23 million. Earnings from exports of petroleum products increased by 62.5 per cent (year-on-year) in April 2017 reflecting greater volumes and higher prices for bunker and aviation fuel. Textile and garment exports at US dollars 351 million in April 2017 registered a moderate increase of 3.0 per cent (year-on-year), although in comparison to the previous month, earnings from textile and garment exports reduced reflecting seasonal patterns. Earnings from machinery and mechanical appliances, printing industry products and wood and paper product exports also showed an improved performance in comparison to April 2016. However, export earnings from gems, diamonds and jewellery, leather, travel goods and footwear and base metals and articles declined in April 2017 on a year-on-year basis.

Earnings from agricultural exports grew by 22.7 per cent (year-on-year) to US dollars 196 million in April 2017 led by tea, spices and seafood exports. Earnings from tea exports increased by 17.1 per cent (year-on-year) to US dollars 109 million due to higher average prices, despite the decline in volume exported. The average export price of tea increased to US dollars 5.42 per kg in April 2017 in comparison to US dollars 4.20 per kg in April 2016, reflecting the increasing trend seen in tea prices from September 2016. Earnings from spices showed a significant growth of 78.4 per cent (year-on-year) in April 2017 mainly due to increased volumes of cinnamon and cloves exports. In addition, earnings from seafood exports increased by 59.7 per cent (year-on-year) in April 2017 due to a 251 per cent growth recorded in seafood exports to the EU, following the removal of the ban on fisheries products. However, earnings from coconut and rubber exports declined in April 2017.

On a cumulative basis, exports earnings during the first four months of 2017 at US dollars 3,569 million, grew by 3.5 per cent (year-on-year) with higher earnings from tea, spices, machinery and mechanical appliances, petroleum products and seafood exports. However, export earnings from textiles and garments, gems, diamonds and jewellery and food, beverages and tobacco declined during the period under consideration.

The leading markets for merchandise exports of Sri Lanka during the first four months of 2017 were the USA, the UK, India, Germany and Italy accounting for about 51 per cent of total exports.

Table 1: Export Earnings (a)

| Category | April 2016 (US\$ mn) (b) | April 2017 (US\$ mn) | Change (%) | Jan - Apr 2016 (US\$ mn) (b) | Jan - Apr 2017 (US\$ mn) | Change (%) |
|-------------------------------------|-----------------------------------|-------------------------------|---------------|--|--------------------------------------|---------------|
| 1. Industrial exports | 547.9 | 594.9 | 8.6 | 2,713.5 | 2,701.5 | (0.4) |
| Textiles and garments | 340.5 | 350.5 | 3.0 | 1,709.8 | 1,626.3 | (4.9) |
| o/w Garments | 319.4 | 330.7 | 3.5 | 1,613.4 | 1,531.7 | (5.1) |
| Machinery and mechanical appliances | 20.6 | 24.6 | 19.6 | 94.5 | 126.5 | 33.8 |
| Petroleum products | 18.2 | 29.5 | 62.5 | 92.3 | 120.1 | 30.1 |
| Food beverages and tobacco | 24.7 | 24.9 | 0.9 | 117.4 | 101.4 | (13.6) |
| Gems, diamonds and jewellery | 23.8 | 16.4 | (31.0) | 98.8 | 80.9 | (18.1) |
| Transport equipment | 5.5 | 27.4 | 400.7 | 52.5 | 66.3 | 26.3 |
| Leather, travel goods and footwear | 10.7 | 8.3 | (22.1) | 49.8 | 49.2 | (1.2) |
| Base metals and articles | 8.3 | 7.7 | (7.4) | 23.8 | 35.3 | 47.9 |
| Printing industry products | 0.6 | 2.7 | 370.4 | 6.6 | 12.7 | 94.2 |
| Ceramics products | 2.1 | 2.3 | 8.4 | 11.6 | 10.5 | (9.9) |
| Other | 93.0 | 100.3 | 7.9 | 456.4 | 472.1 | 3.5 |
| 2. Agricultural exports | 159.5 | 195.8 | 22.7 | 721.8 | 851.7 | 18.0 |
| Tea | 93.2 | 109.1 | 17.1 | 406.3 | 458.2 | 12.8 |
| Coconut | 27.0 | 24.8 | (8.3) | 114.8 | 115.7 | 0.8 |
| Spices | 13.0 | 23.2 | 78.4 | 73.9 | 109.2 | 47.7 |
| Seafood | 11.4 | 18.3 | 59.7 | 57.9 | 84.2 | 45.4 |
| Minor agricultural products | 8.0 | 12.7 | 59.4 | 36.1 | 45.3 | 25.6 |
| Rubber | 2.7 | 2.6 | (5.6) | 12.6 | 19.0 | 50.5 |
| Unmanufactured tobacco | 2.2 | 2.5 | 11.5 | 11.4 | 10.4 | (8.6) |
| Vegetables | 1.9 | 2.7 | 39.6 | 8.7 | 9.6 | 10.4 |
| 3. Mineral and other | 2.9 | 4.0 | 37.0 | 14.3 | 15.8 | 10.9 |
| Total exports | 710.4 | 794.7 | 11.9 | 3,449.6 | 3,569.0 | 3.5 |

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

Expenditure on imports increased by 9.8 per cent (year-on-year) to US dollars 1,604 million in April 2017. The largest contribution to overall growth caused from intermediate goods

(74.7 per cent), followed by consumer goods (20.2 per cent) and investment goods (5.7 per cent).

Expenditure on import of intermediate goods increased by 13.7 per cent (year-on-year) to US dollars 886 million in April 2017, largely due to higher expenditure on fuel and base metal imports. Expenditure on fuel increased by 62.1 per cent (year-on-year) during the month, reflecting higher import volumes of oil and coal for power generation and elevated import prices in the global market. The import price of crude oil increased to US dollars 56.48 per barrel in April 2017 from US dollars 44.05 per barrel in April 2016. In addition, expenditure on the importation of base metals led by iron and steel as well as diamonds, precious stones and metals, particularly gold, also contributed significantly to the high growth in intermediate goods imports. However, import of wheat and maize, fertiliser, chemical products and textiles and textile articles declined in April 2017 relative to April 2016.

Expenditure on consumer goods imports increased by 9.1 per cent (year-on-year) to US dollars 345 million in April 2017 driven by higher imports of non-food consumer goods such as clothing and accessories, household furniture items and home appliances amidst a decline in imports of vehicles and telecommunication devices. Expenditure on food and beverages also increased owing to the substantial increase in import of rice, dairy products and vegetables. Rice imports increased to US dollars 10 million in April 2017 from US dollars 1 million in April 2016 due to measures taken by the government to encourage rice imports to meet the shortage in the domestic market. However, import expenditure on sugar, spices and rubber products declined on a year-on-year basis.

Expenditure on investment goods imports grew in April 2017 by 2.3 per cent to US dollars 372 million (year-on-year) led by higher imports of building materials and transport equipment. Import expenditure on building materials increased owing to iron and steel and cement imports in April 2017 while imports of transport equipment increased mainly due to higher imports of commercial vehicles. However, machinery and equipment imports declined during the same period, owing to lower imports of electric motors and generators and machinery imports for the textile industry.

On a cumulative basis, import expenditure at US dollars 6,883 million during the first four months of 2017 increased by 13.7 per cent (year-on-year), largely due to increased imports

of fuel, gold and rice. Import expenditure on fuel and gold increased by 76.0 per cent and 158.2 per cent (year-on-year), respectively. Expenditure on rice imports increased by more than twenty-eight folds due to increased volumes of rice. However, import expenditure on machinery and equipment, personal vehicles and textiles and textile articles declined during the month.

India, China, the UAE, Singapore and Japan were the main import origins during the first four months of 2017, accounting for about 59 per cent of total imports.

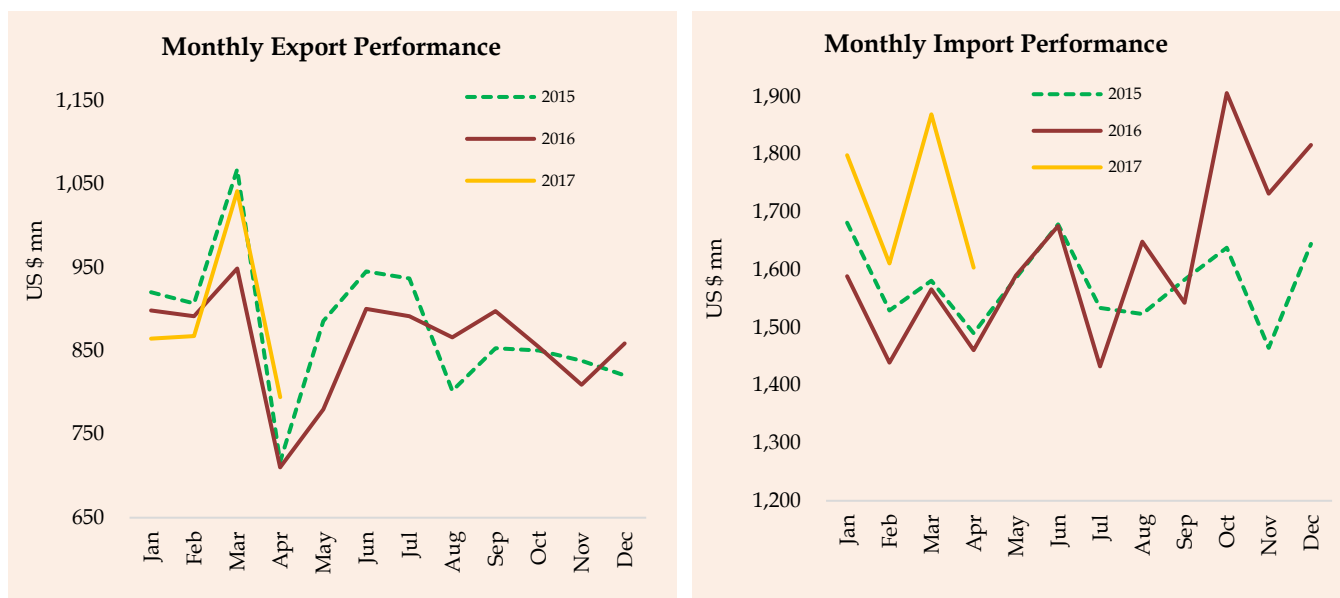
Table 2: Import Expenditure (a)

| Category | April 2016 (US\$ mn) | April 2017 (US\$ mn) | Change (%) | Jan - Apr 2016 (US\$ mn) | Jan - Apr 2017 (US\$ mn) | Change (%) |
|---|-------------------------------|-------------------------------|---------------|--------------------------------------|--------------------------------------|----------------|
| 1. Consumer goods | 316.2 | 345.1 | 9.1 | 1,425.5 | 1,515.6 | 6.3 |
| Food and beverages | 117.4 | 123.9 | 5.6 | 516.9 | 629.2 | 21.7 |
| Vegetables | 18.4 | 22.8 | 23.5 | 140.1 | 124.3 | (11.3) |
| Cereals and milling industry products | 1.9 | 11.2 | 473.3 | 6.9 | 114.6 | 1,552.0 |
| Dairy products | 17.4 | 25.6 | 47.3 | 74.1 | 110.4 | 49.0 |
| Sugar and confectionery | 29.3 | 22.8 | (22.2) | 94.3 | 86.6 | (8.2) |
| Spices | 10.1 | 5.6 | (44.8) | 45.0 | 33.0 | (26.6) |
| Beverages | 9.5 | 6.1 | (35.8) | 25.7 | 25.7 | 0.2 |
| Other food and beverages | 30.7 | 29.9 | (2.5) | 130.7 | 134.6 | 2.9 |
| Non-food consumer goods | 198.9 | 221.2 | 11.2 | 908.6 | 886.5 | (2.4) |
| Vehicles | 67.2 | 56.3 | (16.2) | 298.9 | 248.2 | (17.0) |
| Clothing and accessories | 20.7 | 56.7 | 174.7 | 120.2 | 143.5 | 19.4 |
| Other non-food consumables | 111.0 | 108.1 | (2.6) | 489.6 | 494.8 | 1.1 |
| 2. Intermediate goods | 778.9 | 885.7 | 13.7 | 3,019.2 | 3,692.2 | 22.3 |
| Fuel | 200.8 | 325.6 | 62.1 | 686.5 | 1,208.3 | 76.0 |
| o/w Crude oil | 30.5 | 81.5 | 167.2 | 126.5 | 207.6 | 64.2 |
| Refined petroleum | 151.3 | 204.6 | 35.2 | 465.1 | 829.9 | 78.4 |
| Coal | 19.1 | 39.5 | 107.4 | 95.0 | 170.8 | 79.8 |
| Diamonds and precious stones and metals | 39.0 | 49.6 | 27.2 | 119.8 | 224.6 | 87.5 |
| o/w Gold | 26.9 | 41.6 | 54.8 | 74.8 | 193.1 | 158.2 |
| Textiles and textile articles | 198.3 | 193.9 | (2.2) | 896.8 | 860.6 | (4.0) |
| Chemical products | 71.6 | 63.5 | (11.4) | 281.1 | 274.2 | (2.5) |
| Base metals | 26.5 | 39.9 | 50.4 | 105.4 | 192.6 | 82.7 |
| Wheat and maize | 51.1 | 35.2 | (31.2) | 105.6 | 117.8 | 11.5 |
| Food preparations | 15.8 | 21.8 | 37.7 | 75.0 | 98.7 | 31.6 |
| Mineral products | 7.7 | 9.3 | 20.2 | 51.8 | 54.5 | 5.1 |
| Fertiliser | 13.0 | 2.8 | (78.6) | 54.1 | 22.6 | (58.1) |
| Other | 154.9 | 144.2 | (6.9) | 643.1 | 638.3 | (0.7) |
| 3. Investment goods | 364.3 | 372.5 | 2.3 | 1,607.8 | 1,614.6 | 0.4 |
| Machinery and equipment | 212.8 | 185.7 | (12.8) | 925.2 | 871.9 | (5.8) |
| Building material | 113.8 | 134.3 | 18.1 | 485.3 | 524.1 | 8.0 |
| Transport equipment | 37.3 | 51.6 | 38.2 | 195.1 | 215.1 | 10.3 |
| Other investment goods | 0.3 | 0.9 | 160.8 | 2.2 | 3.4 | 53.7 |
| 4. Unclassified imports | 1.5 | 0.6 | (59.2) | 2.8 | 60.9 | 2,061.4 |
| Total imports | 1,460.9 | 1,603.9 | 9.8 | 6,055.4 | 6,883.3 | 13.7 |

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

(a) Provisional

Figure 1: Export and Import Performance



Sources: Central Bank of Sri Lanka
Sri Lanka Customs

Trade Balance

The deficit in the trade balance expanded to US dollars 809 million in April 2017 in comparison to US dollars 751 million in April 2016. The cumulative trade deficit increased substantially during the first four months of 2017 to US dollars 3,314 million from US dollars 2,606 million during the corresponding period in 2016.

Earnings from Tourism

Tourist arrivals at 160,249 in April 2017 increased by 17.5 per cent (year-on-year), following a decline in arrivals for two consecutive months. As a result, tourist arrivals during the first four months of 2017, recorded an increase of 6.1 per cent to 765,202, in comparison to 721,185 recorded in the corresponding period of 2016. The top five sources of tourist arrivals during the first four months of 2017 were, India, China, the UK, Germany and France, accounting for 50.3 per cent of total tourist arrivals during this period. Accordingly, earnings from tourism¹ increased to US dollars 274.9 million during April 2017 in comparison to US dollars 234.0 million in April 2016. Meanwhile, cumulative earnings from tourism increased by 6.1 per cent to US dollars 1,312.8 million during the first four months of 2017.

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 2017.

Workers' Remittances

Adverse economic and geopolitical conditions prevailing in the Middle Eastern region continued to have a negative impact on workers' remittances. Workers' remittances declined by 15.6 per cent to US dollars 487.9 million in April 2017 from US dollars 578.0 million in April 2016. Furthermore, the cumulative inflow from workers' remittances also declined by 6.3 per cent to US dollars 2,221.7 million during the first four months of 2017, relative to the corresponding period of 2016.

Financial Flows

Foreign investments in the CSE during the first four months of the year recorded a net inflow of US dollars 154.5 million, including a net inflow of US dollars 106.3 million to the secondary market and an inflow of US dollars 48.2 million to the primary market. Continuing the reversal of the trend observed in the previous month, foreign investments in the government securities market recorded a net inflow of US dollars 45 million during April 2017. However, on a cumulative basis, the government securities market experienced a net outflow of US dollars 360.4 million during the first four months of 2017. Long term loans to the government recorded a net inflow of US dollars 60.3 million during the first four months of 2017, compared to a net inflow of US dollars 7.6 million during the corresponding period of 2016. Further, foreign direct investments including foreign loans to BOI companies, which are reported on a quarterly basis, remained moderate with a net inflow of US dollars 146.5 million during the first quarter of 2017. This included disinvestments as a consequence of share buybacks initiated by several companies listed in the CSE.

Overall BOP Position

During the first four months of 2017, the overall BOP is estimated to have recorded a deficit of US dollars 344.4 million in comparison to a deficit of US dollars 958.1 million recorded during the corresponding period of 2016.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves valued at US dollars 5.0 billion by end April 2017 were equivalent to 3.0 months of imports, while total foreign assets valued at US dollars 7.5 billion were equivalent to 4.5 months of imports.

In terms of exchange rate movements, the rupee recorded a modest depreciation of 2.6 per cent against the US dollar from end 2016 up to 06 July 2017. Reflecting cross-currency movements, the rupee also depreciated against all other major currencies i.e. the euro by 9.4 per cent, the pound sterling by 7.4 per cent, the Japanese yen by 5.4 per cent, the Canadian dollar by 6.2 per cent, the Australian dollar by 7.1 per cent and the Indian rupee by 7.0 per cent, during this period.

Table 3: Summary of External Sector Performance (a)

| Category | April 2016 US\$ mn | April 2017 US\$ mn | Change (%) | Jan - Apr 2016 US\$ mn | Jan - Apr 2017 US\$ mn | Change (%) |
|-------------------------------|-----------------------|-----------------------|------------|---------------------------|---------------------------|------------|
| Exports | 710.4 (b) | 794.7 | 11.9 | 3,449.6(b) | 3,569.0 | 3.5 |
| Imports | 1,460.9 | 1,603.9 | 9.8 | 6,055.4 | 6,883.3 | 13.7 |
| Trade balance | -750.5 (b) | -809.2 | 7.8 | -2,605.8(b) | -3,314.3 | 27.2 |
| Earnings from tourism | 234.0 (b) | 274.9 | 17.5 | 1,237.3 (b) | 1,312.8 | 6.1 |
| Workers' remittances | 578.0 | 487.9 | -15.6 | 2,371.4 | 2,221.7 | -6.3 |
| Inflows to the CSE (Net) (c) | -7.0 | 71.1 | -1,116.7 | -19.5 | 154.5 | -892.5 |
| Inflows to the Government (d) | 271.4 (b) | 161.3 | -40.6 | 537.4 (b) | 788.3 | 46.7 |
| of which, | | | | | | |
| Treasury bills and bonds | 174.4 | 103.2 | -40.8 | 217.7 | 385.2 | 77.0 |
| Long term loans | 92.2 (b) | 58.1 | -37.0 | 309.6 (b) | 395.2 | 27.6 |
| Foreign Direct Investment (e) | - | - | - | 129.4 | 146.5 | 13.2 |

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

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