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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka

Tel: 2477424, 2477423, 2477418

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

Issued By Economic Research Department

Date 01.08.2017

External Sector Performance – May 2017

Overview

Sri Lanka's external sector strengthened with significant inflows to the financial account of the balance of payments (BOP) with proceeds from the 11th international sovereign bond (ISB) issuance and a syndicated loan facility in May 2017. These inflows resulted in an increase in gross official reserves from US dollars 5.0 billion as at end April 2017 to US dollars 6.8 billion as at end May 2017. Investor confidence in the Sri Lankan economy continued to be buoyant with continuous inflows to the government securities market and the Colombo Stock Exchange (CSE). However, the current account of the BOP demonstrated a mixed performance during May with a widening of the trade deficit and a moderation in earnings from tourism and workers' remittances. Despite exports increasing for the third consecutive month, the higher increase in import expenditure resulted in a further expansion of the trade deficit. Overall, continuous inflows to the financial account with positive investor sentiments and a gradual rebalancing of the current account is expected to positively impact Sri Lanka's external sector during the second half of 2017.

Export Performance

Continuing the year-on-year increasing trend observed since March 2017, earnings from exports expanded for the third consecutive month in May 2017. Accordingly, export earnings increased by 7.8 per cent to US dollars 841 million in May 2017 compared to US dollars 780 million recorded in the corresponding month of the previous year. The largest contribution for this increase was from agricultural exports followed by industrial exports.

Earnings from agricultural exports at US dollars 223 million increased by 32.0 per cent (year-on-year) in May 2017 due to higher exports of all agricultural goods except coconut kernel products. Export earnings from tea grew by 45.9 per cent (year-on-year) to US dollars 132 million owing to both higher prices and increased volumes. Reflecting high tea prices in the international market, the average export price of tea increased to US dollars 5.41 per kg in May 2017 in comparison to US dollars 4.24 per kg in May 2016. Further, volume of tea exports increased by 14.3 per cent (year-on-year) reversing the declining trend observed since October 2016. Earnings from seafood exports increased by 40.5 per cent (year-on-year) to US dollars 18 million in May 2017 benefitting from the removal of the ban on exports of fisheries products to the EU market. In addition, earnings from exports of spices registered a 21.9 per cent growth reflecting substantial increases in export volumes of cloves and cinnamon.

Earnings from industrial exports grew by 1.1 per cent (year-on-year) to US dollars 615 million in May 2017 mainly due to higher exports of petroleum products and rubber products. Reflecting higher export volumes and prices of bunker and aviation fuel, earnings from exports of petroleum products increased significantly by 63.8 per cent (year-on-year) in May 2017. In addition, export earnings from rubber products increased by 17.5 per cent (year-on-year) in May 2017, mainly due to substantial growth in exports of rubber tyres and surgical and other gloves. Export earnings from base metals and articles also increased by 73.3 per cent (year-on-year) reflecting growth in all sub categories except iron, steel and articles, and tools. Further, earnings from wood and paper products, and food, beverages and tobacco increased during the month. However, export earnings from textiles and garments declined by 4.1 per cent (year-on-year) to US dollars 359 million in May 2017 reflecting a decline in garment exports to the USA and EU markets. Earnings from gem, diamond and jewellery, and transport equipment also declined during the month.

Table 1: Export Earnings (a)

Category	May 2016 (b) (US\$ mn)	May 2017 (US\$ mn)	Change (%)	Jan - May 2016 (b) (US\$ mn)	Jan - May 2017 (US\$ mn)	Change (%)
1. Industrial exports	608.0	614.5	1.1	3,321.5	3,316.0	(0.2)
Textiles and garments	374.7	359.2	(4.1)	2,084.5	1,985.5	(4.7)
o/w Garments	356.3	337.7	(5.2)	1,969.7	1,869.3	(5.1)
Rubber products	57.1	67.0	17.5	308.7	315.5	2.2
Petroleum products	16.9	27.6	63.8	109.2	147.7	35.3
Food, beverages and tobacco	27.9	30.5	9.3	145.3	131.9	(9.2)
Gems, diamonds and jewellery	27.7	22.3	(19.4)	126.5	103.3	(18.4)
Transport equipment	7.0	4.3	(38.2)	59.5	70.7	18.7
Wood and paper products	8.3	11.1	33.0	45.8	56.4	23.2
Base metals and articles	5.4	9.3	73.3	29.2	44.6	52.6
Printing industry products	1.5	1.0	(32.6)	8.1	13.8	70.1
Ceramics products	2.7	2.3	(12.6)	14.3	12.8	(10.4)
Other	78.8	79.7	1.1	390.4	433.8	11.1
2. Agricultural exports	168.7	222.7	32.0	890.5	1,074.4	20.6
Tea	90.2	131.6	45.9	496.5	589.8	18.8
Coconut	27.9	27.9	0.0	142.7	143.7	0.7
Spices	19.4	23.7	21.9	93.4	132.9	42.3
Seafood	12.6	17.7	40.5	70.5	101.9	44.5
Minor agricultural products	10.8	13.0	20.8	46.9	58.3	24.5
Rubber	2.5	2.9	14.6	15.1	21.9	44.5
Unmanufactured tobacco	3.0	3.1	4.2	14.4	13.5	(5.9)
Vegetables	2.4	2.8	17.3	11.1	12.4	11.9
3. Mineral and other	3.4	4.1	19.7	17.7	19.9	12.6
Total exports	780.1	841.2	7.8	4,229.7	4,410.2	4.3

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

On a cumulative basis, earnings from exports grew by 4.3 per cent (year-on-year) to US dollars 4,410 million during the first five months of 2017, as a result of higher income from exports of tea, spices, petroleum products and seafood. 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 period January to May 2017 were the USA, the UK, India, Germany and Italy accounting for about 51 per cent of total exports.

Import Performance

Expenditure on imports increased to US dollars 1,727 million in May 2017 registering a 8.6 per cent (year-on-year) growth, reflecting higher demand for consumer goods and investment goods imports.

Expenditure on consumer goods imports increased by 17.5 per cent (year-on-year) to US dollars 386 million in May 2017, mainly driven by higher imports of food and beverages particularly sugar and rice. The increasing trend in rice imports observed since January 2017 continued in May 2017 as a result of measures taken by the government to encourage rice imports to meet the shortage in the domestic supply. Accordingly, expenditure on rice imports increased by more than ten-fold due to an increase in the import volume to 34 million kg in May 2017 from 4 million kg in May 2016. Further, import expenditure on sugar increased by 167.6 per cent (year-on-year) to US dollars 38 million in May 2017 due to the combined outcome of higher import volumes and prices. In addition, expenditure on imports of non-food consumer goods such as telecommunication devices, clothing and accessories, vehicles and medical and pharmaceuticals increased in May 2017.

Import expenditure on investment goods increased by 4.5 per cent (year-on-year) to US dollars 427 million during May 2017 led by higher imports of transport equipment. Import expenditure on transport equipment increased by 28.3 per cent (year-on-year) mainly due to higher imports of aircraft parts and road vehicles. Further, import expenditure on machinery and equipment increased by 2.2 per cent in May 2017. However, building material imports declined marginally during the same period, owing to lower imports of ceramic products and articles of iron and steel.

Expenditure on import of intermediate goods increased by 1.6 per cent (year-on-year) to US dollars 865 million in May 2017, largely due to higher expenditure on fuel imports. Expenditure on fuel imports increased by 15.3 per cent (year-on-year) reflecting increases in average import prices of all fuel categories, despite lower import volumes of refined petroleum and coal. The import price of crude oil in May 2017 increased to US dollars 51.66 per barrel from US dollars 48.84 per barrel recorded in May 2016. In addition, expenditure

on the importation of wheat and maize increased by 73.7 per cent due to higher volume imported despite a decline in prices. However, import expenditure on chemical products, rubber and articles thereof, and fertiliser decreased in May 2017.

Table 2: Import Expenditure (a)

Category	May 2016 (US\$ mn)	May 2017 (US\$ mn)	Change (%)	Jan - May 2016 (US\$ mn)	Jan - May 2017 (US\$ mn)	Change (%)
1. Consumer goods	328.1	385.6	17.5	1,753.6	1,901.2	8.4
Food and beverages	121.5	162.9	34.1	638.3	792.1	24.1
Sugar and confectionery	14.3	38.2	166.5	108.7	124.7	14.8
Cereals and milling industry products	2.3	16.0	594.1	9.2	130.5	1,313.6
Dairy products	23.0	26.5	15.4	97.1	136.9	41.1
Vegetables	25.4	25.4	(0.2)	165.5	149.7	(9.6)
Beverages	7.6	7.1	(6.3)	33.3	32.9	(1.3)
Spices	11.3	10.4	(8.1)	56.3	43.4	(22.9)
Other food and beverages	37.5	39.4	5.0	168.2	173.9	3.4
Non-food consumer goods	206.7	222.7	7.7	1,115.3	1,109.1	(0.6)
Vehicles	63.5	68.0	7.0	362.4	316.2	(12.8)
Telecommunication devices	16.6	24.8	49.6	97.1	117.1	20.6
Medical and Pharmaceuticals	39.6	42.0	6.0	211.2	203.8	(3.5)
Other non- food consumables	87.0	87.9	1.1	444.6	472.1	6.2
2. Intermediate goods	851.4	864.7	1.6	3,870.7	4,556.9	17.7
Fuel	187.1	215.7	15.3	873.6	1,423.9	63.0
o/w Crude oil	33.4	36.2	8.2	159.9	243.8	52.5
Refined petroleum	152.3	179.4	17.8	617.4	1,009.3	63.5
Coal	1.4	0.1	(95.7)	96.4	170.8	77.3
Diamonds, precious stones and metals	49.0	46.5	(5.1)	168.8	271.2	60.6
o/w Gold	38.5	35.8	(6.8)	113.2	229.0	102.2
Wheat and maize	21.5	37.4	73.7	127.1	155.2	22.1
Agricultural inputs	11.9	20.5	72.7	72.2	77.2	6.9
Mineral products	15.9	24.3	53.0	67.7	78.8	16.4
Food preparations	22.3	29.5	32.4	97.3	128.2	31.7
Textiles and textile articles	234.6	227.3	(3.1)	1,131.3	1,087.9	(3.8)
Fertiliser	14.3	4.5	(68.7)	68.4	27.1	(60.4)
Rubber and articles thereof	43.6	30.2	(30.8)	123.3	121.7	(1.3)
Chemical products	84.4	66.9	(20.7)	365.5	341.1	(6.7)
Other	166.7	161.8	(2.9)	775.3	844.6	8.9
3. Investment goods	408.8	427.3	4.5	2,016.7	2,041.9	1.3
Transport equipment	49.0	62.9	28.3	244.1	278.1	13.9
Machinery and equipment	222.0	226.9	2.2	1,147.2	1,098.8	(4.2)
Building material	137.5	137.0	(0.3)	622.8	661.1	6.2
Other investment goods	0.3	0.4	36.0	2.6	3.9	51.4
4. Unclassified imports	1.4	49.2	3,329.0	4.3	110.1	2,489.3
Total imports	1,589.8	1,726.8	8.6	7,645.2	8,610.1	12.6

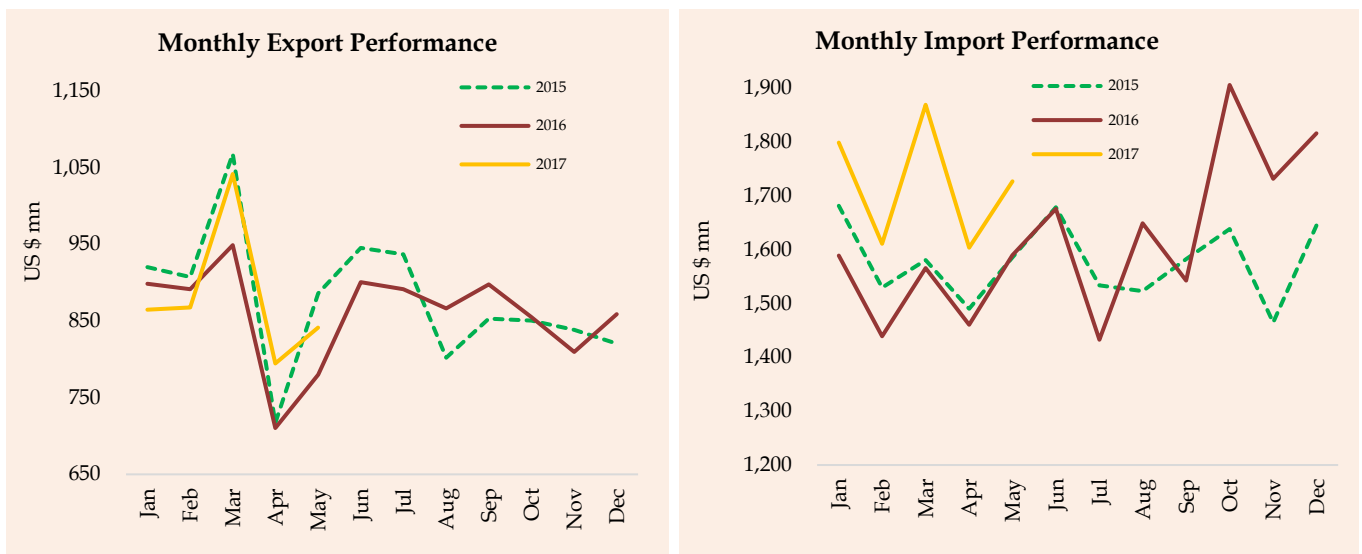
Sources: Sri Lanka Customs
Ceylon Petroleum Corporation
Lanka IOC PLC
Central Bank of Sri Lanka

(a) Provisional

On a cumulative basis, import expenditure at US dollars 8,610 million during the first five months of 2017 increased by 12.6 per cent (year-on-year) largely due to higher imports of fuel, rice and gold. Import expenditure on fuel and gold increased by 63.0 per cent and 102.2 per cent (year-on-year), respectively, during the period under consideration while expenditure on rice imports increased substantially by more than twenty-fold. However, import expenditure on machinery and equipment, personal vehicles and textiles and textile articles declined during the first five months of 2017.

India, China, the UAE, Singapore and Japan continued to be the main import origins during the period January to May 2017, accounting for about 58 per cent of total imports.

Figure 1: Export and Import Performance



Sources: Central Bank of Sri Lanka
Sri Lanka Customs

Trade Balance

The deficit in the trade balance widened to US dollars 886 million in May 2017 compared to US dollars 810 million in May 2016. The cumulative trade deficit during the first five months of 2017 increased to US dollars 4,200 million from US dollars 3,415 million in the corresponding period of 2016.

Earnings from Tourism

In May 2017, tourist arrivals recorded a decline of 2.5 per cent, year-on-year, with 121,891 tourists arriving during the month. However, on a cumulative basis, tourist arrivals grew by 4.8 per cent to 887,093 during the first five months of 2017 compared to the corresponding period of 2016. The top five sources of tourist arrivals, namely; India, China, the UK, Germany and France accounted for 51.4 per cent of total tourist arrivals during this period. Following the same trend in tourist arrivals, earnings from tourism¹ also declined during May 2017 to US dollars 209.1 million. However, on a cumulative basis, earnings from tourism increased by 4.8 per cent to US dollars 1,521.9 million during the first five months of 2017.

Workers' Remittances

As a result of adverse economic and geopolitical conditions prevailing in the Middle Eastern region, workers' remittances declined for the third consecutive month in May 2017. Workers' remittances at US dollars 575.4 million in May declined by 3.7 per cent on a year-on-year basis. Consequently, cumulative inflows from workers' remittances declined by 5.8 per cent to US dollars 2,797.0 million during the first five months of 2017, in comparison to the corresponding period of 2016.

Financial Flows

In May 2017, Sri Lanka issued its 11th International Sovereign Bond (ISB) of US dollars 1.5 billion, with a maturity period of 10 years. The government of Sri Lanka also obtained a syndicated loan of US dollars 450 million during the month. These proceeds to the financial account helped strengthen the balance of payments of the country. In addition, foreign investments in the CSE during the first five months of the year recorded a net inflow of US dollars 191.1 million, including net inflows of US dollars 127.8 million and US dollars 63.2 million to the secondary and primary markets, respectively. Foreign investments in the government securities market recorded a net inflow of US dollars 109.8 million in May 2017, continuing the trend observed during the last two months. However, on a cumulative basis, the government securities market experienced a net outflow of US dollars 250.6 million

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.

during the first five months of 2017. Long term loans to the government, including the proceeds of the syndicated loan, recorded a net inflow of US dollars 567.5 million during the first five months of 2017, compared to a net inflow of US dollars 64.2 million during the corresponding period of 2016.

Overall BOP Position

The overall BOP is estimated to have recorded a surplus of US dollars 1,586.6 million during the first five months of 2017 in comparison to a deficit of US dollars 1,142.4 million recorded during the corresponding period of 2016.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves increased to US dollars 6.8 billion by end May 2017 with the proceeds from the ISB issuance and the syndicated loan facility. The gross official reserves were equivalent to 4.0 months of imports, while total foreign assets at US dollars 8.9 billion were equivalent to 5.2 months of imports.

The rupee recorded a modest depreciation of 2.6 per cent against the US dollar from end 2016 up to 31 July 2017. Reflecting cross-currency movements, the rupee also depreciated against all other major currencies i.e. against the euro by 12.5 per cent, the pound sterling by 8.8 per cent, the Japanese yen by 7.6 per cent, the Canadian dollar by 9.9 per cent, the Australian dollar by 11.6 per cent and the Indian rupee by 8.0 per cent, during this period.

Table 3: Summary of External Sector Performance (a)

Category	May 2016 US\$ mn	May 2017 US\$ mn	Change (%)	Jan - May 2016 US\$ mn	Jan - May 2017 US\$ mn	Change (%)
Exports	780.1 (b)	841.2	7.8	4,229.7 (b)	4,410.2	4.3
Imports	1,589.8	1,726.8	8.6	7,645.2	8,610.1	12.6
Trade balance (net)	-809.7 (b)	-885.6	-	-3,415.5(b)	-4,199.9	-
Earnings from tourism	214.5 (b)	209.1	-2.5	1,451.8(b)	1,521.9	4.8
Workers' remittances	597.2	575.4	-3.7	2,968.6	2,797.0	-5.8
Inflows to the CSE (net) (c)	-17.8	34.7	-	-37.3	191.1	-
Inflows to the Government (d)	300.2(b)	2,252.0	650.2	837.6(b)	3,040.3	263.0
of which,						
Treasury bills and bonds	189.7	186.8	-1.6	407.4	572.0	40.4
International Sovereign Bonds	-	1,500.0	-	-	1,500.0	-
Syndicated Loan	-	450.0	-	-	450.0	-
Long term loans	109.8 (b)	115.2	5.0	419.4(b)	510.4	21.7
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
Board of Investment of Sri Lanka

- (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.