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Press Release

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External Sector Performance - December 2017

Overview

Sri Lanka's external sector performance continued to improve in the month of December 2017, mainly with higher inflows to the Financial Account of the Balance of Payments (BOP). Although earnings from exports increased at a higher rate, the increase in import expenditure resulted in widening the trade deficit in December 2017. Continued inflows by way of tourist earnings and workers' remittances, however, have contributed in curtailing the expanded trade deficit to a certain extent. Improvement in short-term and long-term capital inflows continued during the month. Reflecting the favourable developments in the external sector, the BOP recorded a surplus of US dollars 2,068 million in 2017, while gross official reserves of the country stood at US dollars 8.0 billion as at end 2017. Meanwhile, the Sri Lankan rupee depreciated by 2.0 per cent during 2017.

Table 1: Summary of External Sector Performance (a)

Category	December 2016 US\$ mn	December 2017 US\$ mn	Change (%)	Jan - Dec 2016 US\$ mn	Jan - Dec 2017 US\$ mn	Change (%)
Exports	859	1,020	18.7	10,310	11,360	10.2
Imports	1,816	2,048	12.8	19,183 (b)	20,980	9.4
Trade balance (net)	-957	-1,029		-8,873 (b)	-9,620	
Earnings from tourism	386	420 (c)	8.8	3,518	3,631 (c)	3.2
Workers' remittances	685	671	-1.9	7,242	7,164 (b) (d)	-1.1
Inflows to the CSE (net) (e)	28	11	-60.1	19	279	1,359.8
Inflows to the Government	263 (b)	376	43.0	4,901 (b)	5,702	
Treasury bills and bonds	26	124	374.4	1,238	1,667	34.6
International Sovereign Bonds	-	-		1,500	1,500	
Long term loans	236	252		1,463(b)	1,535	4.9
Foreign currency term financing facility	-	-		700	1,000	
IMF - EFF Receipts	-	251		332	419	
Foreign Direct Investment (f)	-	-		397	766	
Overall Balance	-	-		-500	2,068	

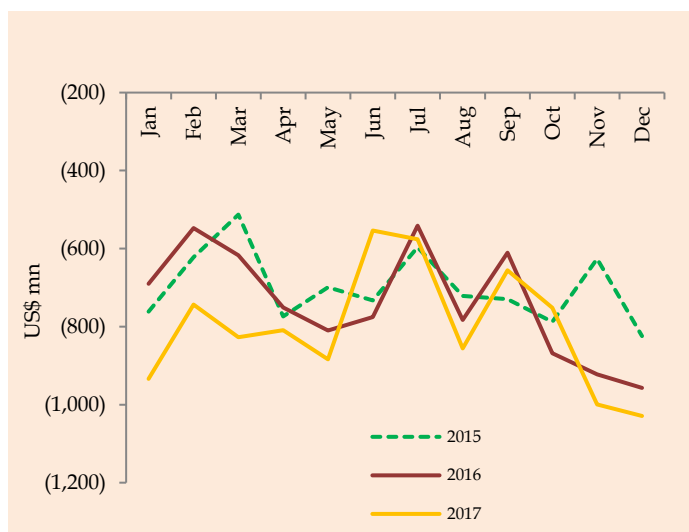
Sources: Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (a) Provisional
- (b) Revised
- (c) This provisional estimate may be revised once the SLTDA releases its survey results for 2017
- (d) Based on revised data provided by LCBs
- (e) Include secondary and primary market transactions
- (f) Data available for the first nine months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the BOI and net direct investments to the CSE

Trade Balance

The deficit in the trade account expanded in December 2017 exceeding the US dollar 1 billion mark for the first time since November 2012. Cumulative trade deficit also increased during 2017 reflecting higher import expenditure caused by weather related factors, offsetting the notable increase in export earnings.

Figure 1: Monthly Trade Balance



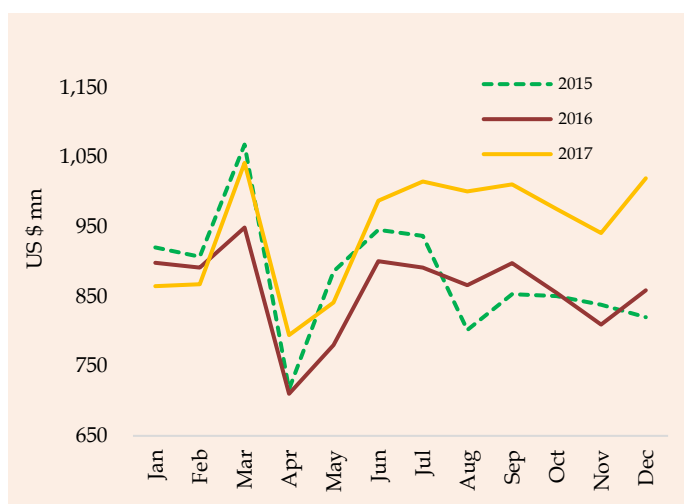
Sources: SLC, CBSL

Performance of Merchandise Exports

Earnings from exports surpassed US dollars 1 billion mark in December 2017 for the fifth time during the year and recorded a double-digit growth (year-on-year) for the sixth consecutive month. Increased performance in industrial exports supported by textiles and garments largely contributed to this growth. Recording the highest value for the year, earnings from textiles and garment exports continued to increase significantly in December 2017 with increased exports to the European Union (EU) following the restoration of the GSP+ facility in May 2017.

Earnings from garment exports to the EU increased by 27.2 per cent (year-on-year), while garment exports to the USA and other non-traditional markets increased by 18.0 per cent and 14.1 per cent, respectively, during December 2017. Further, due to the

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

combined effect of higher volumes and prices of bunker and aviation fuel, exports earnings of petroleum products increased significantly in December 2017. Further, earnings from rubber products increased during the month mainly due to the export of tyres. In addition, export earnings from food, beverages and tobacco increased considerably in December 2017 owing to higher earnings from exports of vegetable, fruit and nuts preparations. Meanwhile, with the increase in the average export prices and volumes, earnings from tea increased in December 2017 favourably impacting agricultural exports. Earnings from seafood and minor agricultural products, particularly fruits and betel leaves also contributed towards the enhanced export earnings.

On a cumulative basis, export earnings recorded the historically highest value of US dollars 11.4 billion in 2017 mainly due to the notable increase in tea, textiles and garments, and petroleum products exports. In addition, spices and seafood exports also contributed towards the increase in exports during 2017. Nevertheless, earnings

from gems, diamonds and jewellery, leather, travel goods and footwear and coconut declined during the year. The leading markets for merchandise exports of Sri Lanka during 2017 were the USA (25.6 per cent), the UK (9.1 per cent), India (6.1 per cent), Germany (4.7 per cent) and Italy (4.7 per cent) accounting for about 50 per cent of total exports.

Table 2: Export Earnings (a)

Category	December 2016 (US\$ mn)	December 2017 (US\$ mn)	Change (%)	Jan - Dec 2016 (US\$ mn)	Jan - Dec 2017 (US\$ mn)	Change (%)
1. Industrial exports	654.9	796.3	21.6	7,940.1	8,541.6	7.6
Food, beverages and tobacco	23.7	32.8	38.5	323.7	392.7	21.3
Animal fodder	7.2	9.9	37.8	67.8	80.2	18.2
Textiles and garments	393.6	470.0	19.4	4,884.1	5,031.9	3.0
o/w Garments	368.1	445.1	20.9	4,602.7	4,739.3	3.0
Textiles	19.3	17.4	(10.1)	200.2	205.4	2.6
Other made up textile articles	6.2	7.5	21.3	81.1	87.3	7.6
Rubber products	62.4	74.6	19.6	767.9	835.4	8.8
Gems, diamonds and jewellery	19.5	20.7	6.1	273.9	257.2	(6.1)
Machinery and mechanical appliances	24.9	30.0	20.4	317.6	370.8	16.7
Transport equipment	7.7	4.6	(39.3)	131.5	162.3	23.4
Petroleum products	30.8	62.4	102.8	286.9	434.3	51.4
Chemical products	11.1	12.4	11.7	126.3	146.4	16.0
Wood and paper products	12.0	12.7	6.0	116.7	138.8	19.0
Printing industry products	12.1	4.3	(64.6)	42.4	48.8	15.3
Leather, travel goods and footwear	11.2	14.1	25.7	165.6	158.4	(4.4)
Plastics and articles thereof	5.7	8.1	41.9	66.3	74.6	12.5
Base metals and articles	6.9	10.2	48.3	89.6	115.9	29.3
Ceramics products	2.9	2.9	1.1	34.4	33.7	(1.9)
Other	23.2	26.4	13.5	245.5	260.2	6.0
2. Agricultural exports	200.9	219.7	9.3	2,326.1	2,767.2	19.0
Tea	109.8	126.9	15.6	1,269.0	1,529.8	20.5
Rubber	3.2	3.3	0.9	32.7	38.9	19.1
Coconut	28.5	18.9	(33.8)	366.0	347.9	(4.9)
Spices	32.0	32.6	2.1	317.1	406.2	28.1
Vegetables	1.7	2.0	18.8	26.5	28.5	7.5
Unmanufactured tobacco	2.5	4.9	95.3	31.2	36.5	17.1
Minor agricultural products	5.7	9.4	65.9	114.1	138.7	21.6
Seafood	17.4	21.5	23.5	169.6	240.6	41.9
3. Mineral and other	3.2	3.5	10.7	43.5	51.4	18.0
Total exports	859.0	1,019.5	18.7	10,309.7	11,360.2	10.2

Sources: SLC, National Gem and Jewellery Authority (NGJA), Ceylon Petroleum Corporation (CPC) and Other Exporters of Petroleum, CBSL

(a) Provisional

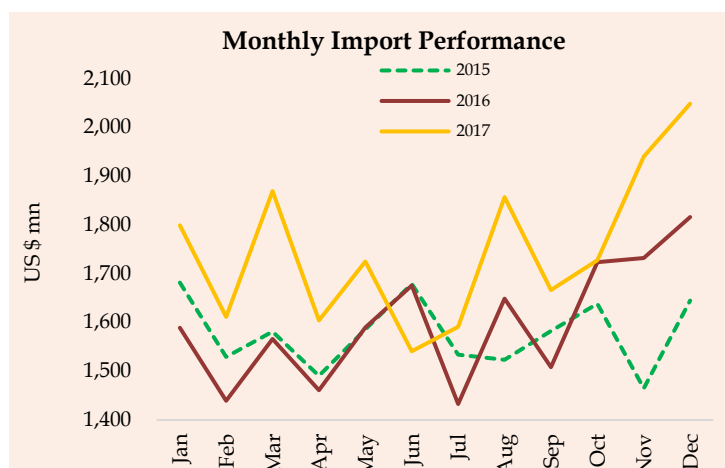
Performance of Merchandise Imports

Surpassing the US dollars 2 billion mark for the first time, expenditure on imports increased in December 2017. The significant expansion in import expenditure was largely driven by the expenditure on fuel, owing to increased prices and import volumes of refined petroleum products and coal. Further, import expenditure on base metals also increased mainly due to

higher imports of iron and steel. Import expenditure on rice increased further in December 2017 due to the importation of rice to fulfil the shortage in the domestic market, although there was a decline in average import prices. Further, expenditure on gold imports increased considerably during the month reflecting higher volumes. In addition, import expenditure on personal vehicles increased owing to imports of electric motor vehicles following the reduction in taxes on electric motor vehicles in the Budget 2018. However, expenditure on wheat and maize decreased significantly during the month, mainly due to the decline recorded in imported volumes of wheat despite the increase recorded in average import prices. Also, import expenditure on machinery and equipment declined in December 2017, mainly due to lower imports of engineering equipment and electrical machinery and equipment. Import of cement clinker (63.2 per cent) and cement (18.3 per cent) declined during the month.

On a cumulative basis, import expenditure recorded the historically highest value of US dollars 21 billion in 2017. This was largely led by higher imports of fuel and rice. In addition, expenditure on gold and wheat imports increased significantly during the year. However, import expenditure on machinery and equipment, sugar, spices and fertiliser declined during the year. India (21.4 per cent), China (18.8 per cent), UAE (7.5 per cent), Singapore (6.2 per cent) and Japan (5.0 per cent) were the main import origins accounting for about 59 per cent of total imports during 2017.

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

Table 3: Import Expenditure (a)

Category	December 2016 (US\$ mn)	December 2017 (US\$ mn)	Change (%)	Jan - Dec 2016 (b) (US\$ mn)	Jan - Dec 2017 (US\$ mn)	Change (%)
1. Consumer goods	354.2	433.6	22.4	4,319.0	4,502.5	4.3
Food and beverages	142.6	181.5	27.3	1,627.4	1,841.1	13.1
Cereals and milling industry products	2.6	42.4	1,551.3	22.1	314.5	1,320.2
o/w Rice	1.7	40.8	2,355.3	12.8	300.9	2,244.7
Dairy products	29.6	24.8	(16.0)	249.3	315.8	26.7
Sugar and confectionery	22.5	24.3	8.0	344.6	258.0	(25.1)
Seafood	19.1	18.3	(3.9)	237.3	217.5	(8.3)
Spices	8.0	8.3	4.5	132.0	92.8	(29.7)
Fruits	6.3	7.5	18.6	73.7	84.7	14.9
Oils and fats	2.2	4.0	84.3	35.9	46.0	28.1
Other food and beverages	52.4	51.9	(1.0)	532.5	511.8	(3.9)
Non-food consumer goods	211.6	252.1	19.1	2,691.5	2,661.5	(1.1)
Medical and pharmaceuticals	39.2	45.5	16.3	525.8	520.0	(1.1)
Vehicles	58.3	95.3	63.5	794.8	772.7	(2.8)
Telecommunication devices	20.0	27.1	35.7	247.1	281.2	13.8
Clothing and accessories	26.2	24.2	(7.6)	365.8	369.0	0.9
Home appliances	21.5	18.6	(13.4)	270.7	258.2	(4.6)
Cosmetics and toiletries	6.9	6.7	(4.0)	86.8	77.4	(10.8)
Printed materials and stationary	6.4	3.2	(50.6)	43.9	40.2	(8.5)
Other non-food consumables	33.1	31.4	(5.2)	356.6	342.9	(3.9)
2. Intermediate goods	1,003.6	1,193.8	18.9	9,870.0	11,435.8	15.9
Fuel	328.2	433.3	32.0	2,481.0	3,427.9	38.2
o/w Crude oil	81.6	95.7	17.2	596.0	704.0	18.1
Refined petroleum	219.1	295.1	34.7	1,688.4	2,462.5	45.9
Coal	27.5	42.5	54.7	196.7	261.5	32.9
Diamonds, precious stones and metals	73.8	95.4	29.3	514.4	772.4	50.1
o/w Gold	55.3	79.1	43.1	374.0	649.8	73.7
Textiles and textile articles	227.9	232.5	2.0	2,704.9	2,724.2	0.7
Wheat and maize	25.6	2.7	(89.3)	249.2	356.6	43.1
Mineral products	21.0	9.6	(54.5)	222.1	211.1	(4.9)
Food preparations	15.0	20.9	39.6	221.4	298.0	34.6
Rubber and articles thereof	18.0	23.7	31.4	278.6	287.8	3.3
Unmanufactured tobacco	4.9	6.4	30.3	67.6	67.7	0.1
Fertiliser	7.3	16.2	121.7	136.9	102.8	(24.9)
Base metals	59.9	125.1	109.0	456.1	628.7	37.8
Other	221.8	227.9	2.8	2,537.9	2,558.5	0.8
3. Investment goods	457.2	418.8	(8.4)	4,980.8	4,894.7	(1.7)
Machinery and equipment	251.1	229.6	(8.6)	2,740.7	2,620.6	(4.4)
Building material	148.1	130.9	(11.6)	1,568.7	1,591.4	1.4
Transport equipment	55.4	57.9	4.6	662.9	674.9	1.8
Other investment Goods	2.6	0.4	(83.4)	8.5	7.8	(7.8)
4. Unclassified imports	1.1	2.4	110.4	13.1	146.8	1,024.6
Total imports	1,816.1	2,048.5	12.8	19,182.8	20,979.8	9.4

Sources: SLC, CPC, Lanka IOC PLC, CBSL

(a) Provisional

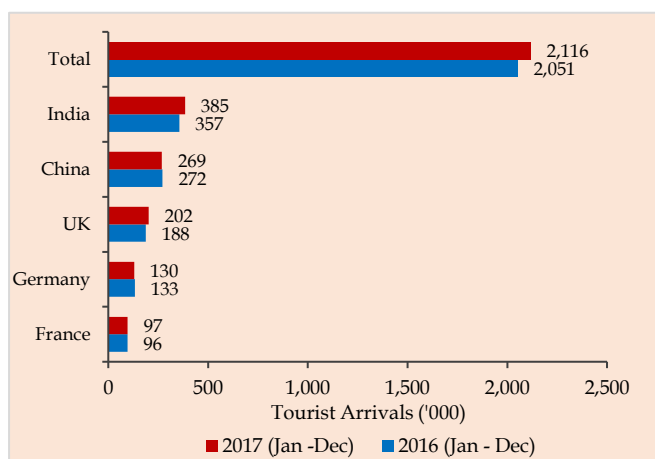
(b) Revised

Other Major Inflows to the Current Account

Earnings from tourism and workers' remittances were the main inflows to the external current account followed by the proceeds of merchandise exports. With December recording the highest number of tourists in a given month for the year 2017, earnings from tourism increased to US dollars 419.5 million¹. Accounting for 51.2 per cent of total tourist arrivals for 2017, India, China, the UK, Germany and France continued to be the top five sources of tourist arrivals. For 2017, earnings from tourism are provisionally estimated to be an increase of 3.2 per cent to US dollars 3,631 million.

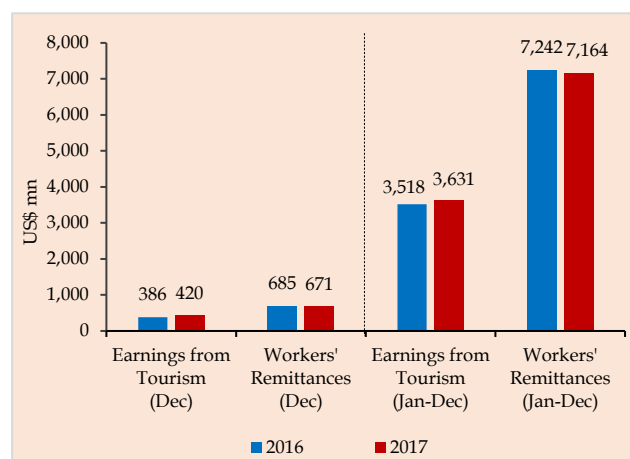
Workers' remittances declined by 1.9 per cent to US dollars 671 million in December 2017. On a cumulative basis, inflows on account of workers' remittances declined by 1.1 per cent year-on-year to US dollars 7,164 million² in 2017 reflecting the geo-political uncertainties and the continuation of subdued economic performance in the major remittance generating destinations.

Figure 4: Top Five Sources of Tourist Arrivals



Source: SLTDA

Figure 5: Earnings from Tourism and Workers' Remittances



Sources: SLTDA, Licensed Commercial Banks, CBSL

Financial Flows

Inflows on account of foreign investments in the government securities market and the Colombo Stock Exchange (CSE), long-term loan inflows to the government, proceeds of Hambantota port in the form of FDI as well as receipt of the fourth tranche

¹ This provisional estimate may be revised once the SLTDA releases its survey results for 2017.

² Based on revised data provided by LCBs.

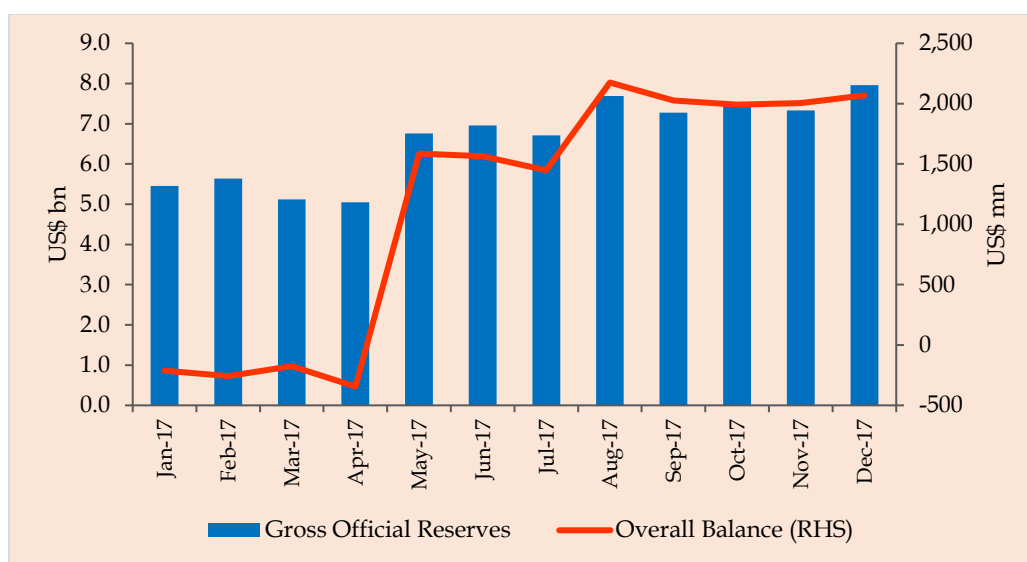
under the EFF from the IMF were instrumental in strengthening the financial account of the BOP in December 2017.

Foreign investments to the government securities market witnessed a net inflow for the tenth consecutive month. Foreign investments in the CSE also recorded a net inflow for the month of December and for the year 2017. However, as repayment of foreign loans outweighed inflows, government long-term loans (net) recorded a year-on-year decline in the month of December as well as for the whole year 2017.

International Reserves

The gross official reserves of the country reached US dollars 8.0 billion (equivalent to 4.6 months of imports) by end 2017 compared to US dollars 6.0 billion recorded at end 2016. Total foreign assets, which include foreign assets of the banking sector, also increased to US dollars 10.4 billion (equivalent to 6.0 months of imports) as at end 2017 from US dollars 8.4 billion recorded as at end 2016.

Figure 6: Gross Official Reserves and Overall Balance

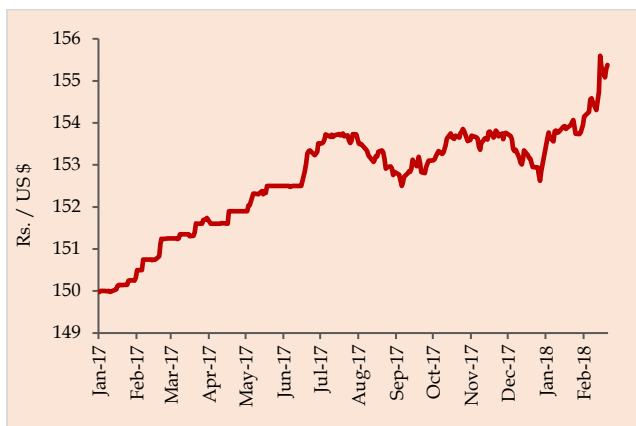


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee which depreciated by 2.0 per cent in 2017, further depreciated by 1.6 per cent against the US dollar in 2018 up to 21 February. Furthermore, reflecting cross currency movements, the rupee also depreciated against other major currencies during this period.

Figure 7: Exchange Rate Movement Rupees per US\$



Source: CBSL

Table 4: Movement of Sri Lankan Rupee Against Other Currencies

Currency	2017	Up to 21 February 2018 Appreciation (+) / Depreciation (-)
US dollar	-2.0%	-1.6%
Euro	-13.5%	-4.8%
Pound sterling	-10.5%	-5.5%
Japanese yen	-5.1%	-6.1%
Canadian dollar	-8.6%	-1.0%
Australian dollar	-9.0%	-2.7%
Indian rupee	-7.5%	-1.3%

Source: CBSL