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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](mailto:dcommunications@cbsl.lk), [communications@cbsl.lk](mailto:communications@cbsl.lk)

Web: [www.cbsl.gov.lk](http://www.cbsl.gov.lk)

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# **Press Release**

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## **External Sector Performance - February 2018**

### **Overview**

A notable growth in tourist arrivals and continuous net foreign inflows to the stock exchange amidst a significant widening of the trade deficit characterised the external sector performance in February 2018. A surge in gold imports was the primary driver behind the fastest increase in overall merchandise imports in nearly 3-1/2-years, resulting in a further widening of the trade deficit in February 2018. Continuing the growth momentum observed in January 2018, earnings from tourism increased significantly in February 2018. However, workers' remittances declined in February 2018 following a growth in January. The financial account of the balance of payments (BOP) recorded a net inflow of foreign investments to the stock exchange, helping to counterbalance a net outflow in the government securities market in February 2018. The BOP was further strengthened by the successful issuance of two international sovereign bonds in April 2018 which augmented gross official reserves to an estimated US dollars 9.9 billion by end April 2018, the highest level recorded so far. Meanwhile, the Sri Lankan rupee depreciated by 3.2 per cent against the US dollar during the year up to 11 May 2018.

**Table 1: Summary of External Sector Performance (a)**

Category	February 2017 US\$ mn	February 2018 US\$ mn	Change (%)	Jan-Feb 2017 US\$ mn	Jan-Feb 2018 US\$ mn	Change (%)
Exports	868	916	5.5	1,733	1,881	8.6
Imports	1,611	1,978	22.8	3,410	3,992	17.1
Trade balance (net)	-743	-1,062		-1,678	-2,111	
Earnings from tourism	366 (b)	437 (c)	19.3	773 (b)	880 (c)	13.8
Workers' remittances	598 (d) (e)	572	-4.4	1,268 (d) (e)	1,301	2.6
Inflows to the CSE (net) (f)	60	18		49	54	
Inflows to the Government (gross)	227	286		444	571	
Treasury bills and bonds	130	95		213	265	
Long term loans	97	191		231	306	
Overall Balance				-258.3	-0.4	

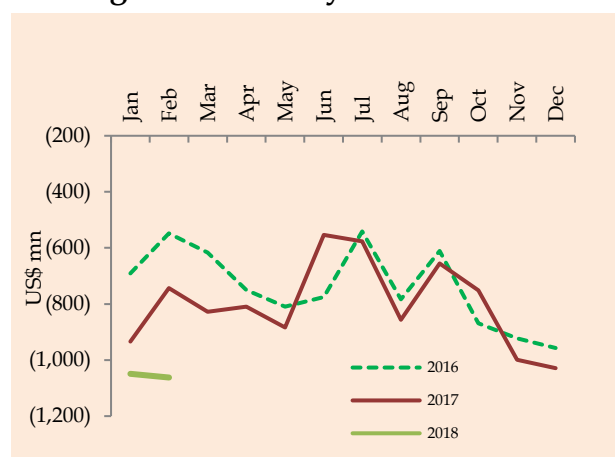
**Sources:** Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (a) Provisional
- (b) Revised based on survey results of SLTDA on average stay period and average spending per day estimates for 2017
- (c) This provisional estimate may be revised once the SLTDA releases its survey results for 2018
- (d) Revised
- (e) Based on revised data provided by LCBs
- (f) Include secondary and primary market transactions

## Trade Balance

The deficit in the trade account continued to expand in February 2018. The significant gold-led increase in expenditure on imports outpaced the moderate growth in export earnings. The resultant impact was the trade deficit exceeding US dollars 1 billion for the third consecutive month.

**Figure 1: Monthly Trade Balance**



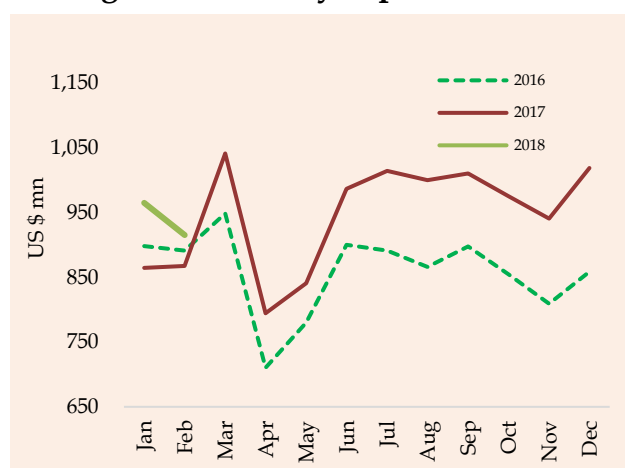
**Sources:** SLC, CBSL

## Performance of Merchandise Exports

In February 2018, earnings on merchandise exports recorded a moderate growth, reflecting the impact of a low base for comparison in February 2017 when earnings contracted. In nominal terms, export earnings in February 2018 amounted to US dollars 916 million. This meant a break in the recent momentum in merchandise exports, which recorded

double-digit-growth rates on year-on-year basis for seven consecutive months. However, all major export sectors recorded some expansion, particularly driven by industrial exports. Under industrial exports, petroleum products increased substantially driven by the export of bunker and aviation fuel. Due to increased demand, export volumes of bunker and aviation fuel increased by 46.0 per cent, while average prices grew by 16.0 per cent. Despite the reduction of garment exports to the USA by 3.8 per cent, earnings from garments exported to the EU increased by 10.6 per cent while earnings from non-traditional markets such as India, Japan, Hong Kong and Australia rose by 1.5 per cent. However, earnings from machinery and mechanical appliances declined due to lower exports of electrical machinery and equipment while leather, travel goods and footwear declined owing to lower exports of footwear. In the context of agricultural exports, earnings on tea exports increased in February 2018 due to higher prices, although volume exported shrank by 3.1 per cent. However, coconut exports declined due to the drop in exports of coconut kernel products. This came despite a significant year-on-year growth of earnings from non-kernel products recorded as a result of higher coconut fibre exports. Export earnings on rubber and spices also declined during the month. Meanwhile, mineral exports contributed to the growth in exports in February 2018. Leading markets for merchandise exports of Sri Lanka in February 2018 were the USA, the UK, India, Germany and Italy accounting for about 51 per cent of total exports.

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

**Table 2: Earnings from Merchandise Export (a)**

Category	February 2017 (US\$ mn)	February 2018 (US\$ mn)	Change (%)	Jan - Feb 2017 (US\$ mn)	Jan - Feb 2018 (US\$ mn)	Change (%)
<b>1. Industrial exports</b>	<b>659.4</b>	<b>703.2</b>	<b>6.6</b>	<b>1,327.4</b>	<b>1,460.9</b>	<b>10.1</b>
Food, beverages and tobacco	23.7	29.6	25.3	45.7	77.8	70.2
Animal fodder	6.7	7.8	17.2	13.5	14.9	10.0
Textiles and garments	396.1	407.0	2.8	822.4	841.8	2.4
o/w Garments	371.0	381.5	2.8	776.2	790.8	1.9
Textiles	19.0	18.1	(4.8)	33.8	36.6	8.6
Other made up textile articles	6.0	7.4	22.5	12.5	14.4	15.2
Rubber products	64.8	68.3	5.4	122.8	139.4	13.5
Gems, diamonds and jewellery	22.6	23.1	2.1	44.4	50.6	14.1
Machinery and mechanical appliances	37.6	31.4	(16.5)	63.6	61.1	(3.8)
Transport equipment	7.8	7.9	0.9	15.1	15.2	1.2
Petroleum products	27.2	45.5	67.2	56.7	98.2	73.2
Chemical products	10.3	12.6	22.1	21.3	25.1	18.1
Wood and paper products	10.7	12.2	13.8	21.9	23.5	7.1
Printing industry products	2.6	1.1	(56.3)	7.3	2.7	(63.5)
Leather, travel goods and footwear	16.3	14.8	(9.5)	25.7	27.8	8.2
Plastics and articles thereof	5.1	6.8	34.9	9.7	13.1	34.4
Base metals and articles	7.7	11.2	45.5	15.8	23.3	47.1
Ceramics products	2.8	2.2	(22.9)	4.9	4.1	(15.8)
Other	17.4	21.8	24.9	36.6	42.3	15.4
<b>2. Agricultural exports</b>	<b>204.9</b>	<b>206.1</b>	<b>0.6</b>	<b>398.5</b>	<b>410.2</b>	<b>2.9</b>
Tea	113.9	118.2	3.8	215.5	230.0	6.7
Rubber	5.6	4.1	(27.0)	10.6	8.1	(23.3)
Coconut	27.2	26.3	(3.1)	54.5	47.5	(12.8)
Spices	25.3	24.6	(2.7)	55.7	54.7	(1.9)
Vegetables	1.8	1.6	(12.1)	3.6	3.5	(4.3)
Unmanufactured tobacco	3.7	3.6	(3.0)	5.8	5.4	(6.8)
Minor agricultural products	8.6	8.2	(4.8)	15.9	18.7	17.8
Seafood	18.8	19.5	3.9	37.0	42.4	14.7
<b>3. Mineral and other</b>	<b>3.6</b>	<b>6.3</b>	<b>76.9</b>	<b>6.6</b>	<b>9.9</b>	<b>50.3</b>
<b>Total exports</b>	<b>867.8</b>	<b>915.7</b>	<b>5.5</b>	<b>1,732.5</b>	<b>1,881.0</b>	<b>8.6</b>

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

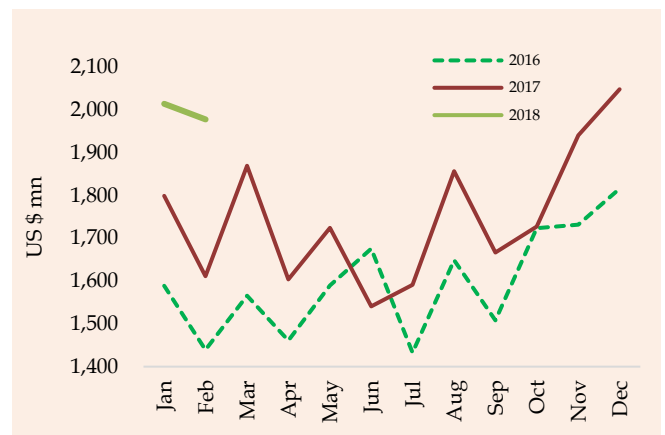
(a) Provisional

## Performance of Merchandise Imports

In February 2018, expenditure on imports recorded the highest year-on-year growth rate since October 2014. In nominal terms, import expenditure in February 2018 amounted to US dollars 1,978 million. This substantial increase in import expenditure

was partly attributable to the relatively lower base recorded in February 2017. All major categories have contributed to the increase in expenditure on imports with intermediate goods and consumer goods being the key contributors. Under intermediate goods, expenditure on gold imports continued to increase recording the highest ever monthly gold imports in February 2018. Considering the possible illicit arbitrage of the tariff differential

**Figure 3: Monthly Import Performance**



Sources: SLC, CBSL

between India and Sri Lanka on gold imports, custom duty of 15 per cent was imposed on gold imports with effect from 18 April 2018. Gold imports therefore are expected to decline in the coming months. Import expenditure on textiles and textile articles also rose due to the increased importation of fabrics and yarn. However, this increase in textiles and textile articles is expected to facilitate higher export of textiles and garments in coming months. Expenditure on wheat and maize imports in February 2018 increased due to the combined effect of higher volumes and prices of wheat imported. However, the non-importation of crude oil due to the closure of the refinery for maintenance purposes and lower volumes of coal imports, resulted in expenditure on fuel imports declining in February 2018 although expenditure on refined petroleum imports increased. In the consumer goods category, expenditure on personal vehicle imports in February 2018 increased more than two fold compared to the corresponding month of 2017 mainly due to higher imports of small petrol cars and hybrid vehicles. However, import expenditure on cereals and milling industry products, driven by rice imports, declined for the first time since January 2017 with the increased availability of rice stocks in the domestic market. Meanwhile, all sub sectors under investment goods increased during February 2018. China, India, Singapore, the UAE and Japan were the main import origins in February 2018, accounting for about 59 per cent of total imports.

**Table 3: Expenditure on Merchandise Import (a)**

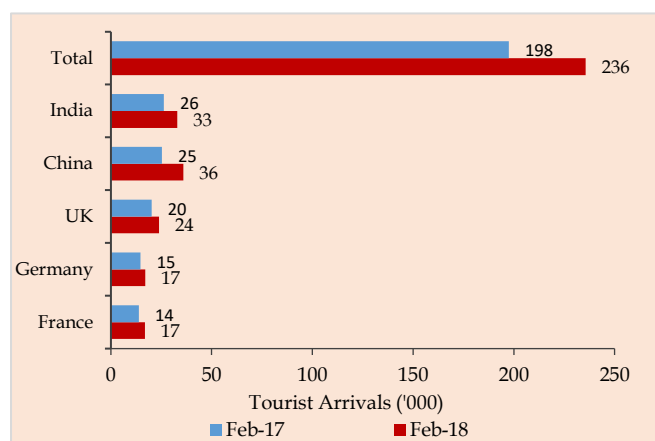
Category	February 2017 (US\$ mn)	February 2018 (US\$ mn)	Change (%)	Jan - Feb 2017 (US\$ mn)	Jan - Feb 2018 (US\$ mn)	Change (%)
<b>1. Consumer goods</b>	<b>343.2</b>	<b>441.8</b>	<b>28.7</b>	<b>702.0</b>	<b>883.3</b>	<b>25.8</b>
Food and beverages	148.1	165.3	11.6	291.7	349.0	19.6
Cereals and milling industry products	37.1	25.1	(32.3)	49.8	58.3	17.1
o/w Rice	35.9	23.5	(34.4)	47.6	54.8	15.2
Dairy products	26.5	26.9	1.4	47.6	58.8	23.6
Sugar and confectionery	17.4	31.0	78.8	39.4	58.7	49.0
Seafood	14.1	20.6	45.9	32.3	41.3	27.6
Vegetables	28.1	30.7	9.0	66.8	70.5	5.6
Fruits	6.9	8.6	25.0	12.6	16.0	26.9
Beverages	5.3	5.5	4.7	11.3	10.3	(8.5)
Other food and beverages	12.8	16.9	31.9	32.1	35.2	9.7
Non-food consumer goods	195.1	276.5	41.7	410.3	534.3	30.2
Medical and pharmaceuticals	41.8	38.5	(7.9)	80.7	82.6	2.4
Vehicles	51.3	113.7	121.5	117.3	208.8	77.9
Household and furniture items	11.0	17.3	56.6	24.8	33.1	33.5
Clothing and accessories	26.1	32.3	24.1	56.1	69.8	24.4
Home appliances	22.5	28.4	26.4	41.1	47.3	15.1
Cosmetics and toiletries	6.9	6.4	(6.8)	14.3	13.2	(7.9)
Printed materials and stationary	2.5	2.4	(3.9)	5.0	5.3	4.7
Other non-food consumables	33.1	37.6	13.7	70.9	74.3	4.8
<b>2. Intermediate goods</b>	<b>907.4</b>	<b>1,096.3</b>	<b>20.8</b>	<b>1,858.0</b>	<b>2,229.7</b>	<b>20.0</b>
Fuel	354.6	315.2	(11.1)	637.4	677.2	6.3
o/w Crude oil	84.2	-	-	126.1	103.4	(18.0)
Refined petroleum	213.8	268.9	25.8	418.5	492.8	17.7
Coal	56.6	46.3	(18.3)	92.7	81.0	(12.7)
Diamonds, precious stones and metals	54.4	120.0	120.5	123.4	224.8	82.1
o/w Gold	46.6	111.9	140.1	110.8	205.7	85.7
Textiles and textile articles	186.6	247.3	32.5	439.6	492.5	12.0
Wheat and maize	13.1	43.7	234.1	43.8	74.8	70.8
Mineral products	8.5	22.3	162.3	23.6	36.0	52.5
Chemical products	62.1	75.0	20.9	131.8	149.5	13.4
Rubber and articles thereof	18.8	19.3	3.0	43.9	45.8	4.2
Unmanufactured tobacco	4.1	6.9	69.8	7.4	9.1	22.2
Fertiliser	9.0	20.3	126.7	13.1	62.7	377.8
Base metals	52.5	47.9	(8.8)	90.9	107.5	18.3
Other	143.8	178.3	24.0	303.1	349.9	15.4
<b>3. Investment goods</b>	<b>360.3</b>	<b>380.5</b>	<b>5.6</b>	<b>792.5</b>	<b>817.4</b>	<b>3.1</b>
Machinery and equipment	197.8	200.4	1.3	448.4	440.7	(1.7)
Building material	111.9	123.0	10.0	247.8	266.1	7.4
Transport equipment	50.2	56.2	11.9	94.5	108.9	15.3
Other investment Goods	0.4	0.9	147.5	1.8	1.6	(10.5)
<b>4. Unclassified imports</b>	<b>0.2</b>	<b>59.3</b>	<b>26,153.5</b>	<b>57.5</b>	<b>62.2</b>	<b>8.1</b>
<b>Total imports</b>	<b>1,611.2</b>	<b>1,978.0</b>	<b>22.8</b>	<b>3,410.1</b>	<b>3,992.5</b>	<b>17.1</b>

Sources: SLC, CPC, Lanka IOC PLC, CBSL  
(a) Provisional

## Other Major Inflows to the Current Account

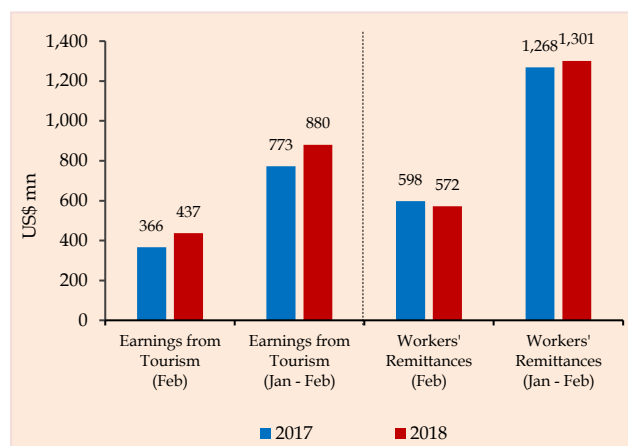
Tourist arrivals increased by 19.3 per cent in February 2018, driven by a higher number of tourists from China, India, Russia and the United Kingdom compared to February 2017. In this year's first two months, 474,542 tourists arrived, marking an increase of 13.8 per cent compared to the corresponding period of 2017. Earnings from tourism are estimated at US dollars 437 million in February 2018, with the cumulative earnings amounting to US dollars 880 million for the first two months of 2018. Meanwhile, workers' remittances moderated in February 2018, as has been the usual pattern over the last several years. On a cumulative basis, workers' remittances increased by 2.6 per cent compared to the first two months of 2017.

**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

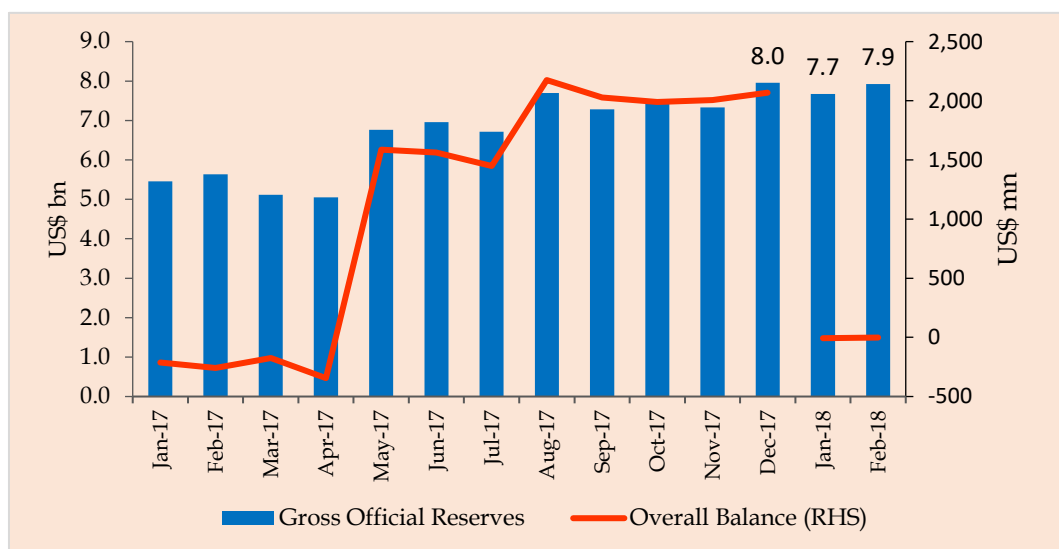
Net foreign inflows to the Colombo Stock Exchange (CSE) amounted to US dollars 18 million during February 2018, including net inflows to the primary and secondary markets. Accordingly, cumulative net inflows in the first two months of 2018 were US dollars 54 million. Meanwhile, the government securities market (Treasury bills and bonds) recorded a net foreign investment outflow of US dollars 55.6 million in February 2018, following a net inflow of US dollars 47.3 million in January 2018. Substantial portion of the daily outflows from the Treasury bill and bond market

occurred during the first week of February which gradually subsided in the latter part of the month. Further, long term loans to the government recorded a net inflow of US dollars 108 million during February 2018.

### International Reserves

Gross official reserves of the country increased to US dollars 7.9 billion at end February 2018, equivalent to 4.4 months of imports. The monthly reserve increase was primarily due to accumulation of Asian Clearing Union (ACU) liabilities managed by the Central Bank. Total foreign assets, including foreign assets of the banking sector, also increased to US dollars 10.1 billion as at end February 2018, compared to US dollars 10.0 billion at end January 2018. At the end of February 2018, total foreign assets were sufficient to cover 5.6 months of imports.

**Figure 6: Gross Official Reserves and Overall Balance**



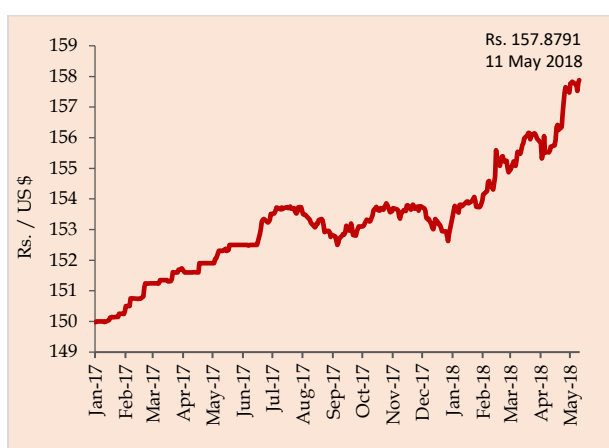
Source: CBSL



## Exchange Rate Movements

The Sri Lankan rupee depreciated by 3.2 per cent against the US dollar in the year to 11 May 2018. Furthermore, reflecting cross currency movements, the rupee also depreciated against other major currencies except for the Australian Dollar and the Indian Rupee during this period. The weakening of the rupee partly reflects a broad based strengthening of the US dollar globally.

**Figure 7: Exchange Rate Movement Rupees per US\$**



Source: CBSL

**Table 4: Movement of Sri Lankan Rupee Against Other Currencies**

Currency	2017	Up to 11 May 2018 Appreciation (+) / Depreciation (-)
US dollar	-2.0%	-3.2%
Euro	-13.5%	-3.0%
Pound sterling	-10.5%	-3.7%
Japanese yen	-5.1%	-6.0%
Canadian dollar	-8.6%	-1.6%
Australian dollar	-9.0%	+0.2%
Indian rupee	-7.5%	+1.6%

Source: CBSL