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Press Release

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External Sector Performance – January 2018

Overview

Sri Lanka's external sector demonstrated an improvement in January 2018 with higher inflows to the financial account in spite of the widening of the trade deficit. While earnings from merchandise exports increased, expenditure on imports also increased significantly outweighing the performance in export earnings during the month. Nevertheless, reversing the moderating trend observed during the last year, tourist earnings recorded a notable growth during January 2018. Workers' remittances, which marked a set-back in 2017, also recorded a considerable growth on a year-on-year basis in January 2018. Meanwhile, the financial account of the Balance of Payments (BOP) continued to experience higher inflows in January 2018, with foreign investments in the government securities market and the Colombo Stock Exchange (CSE). At the end of January 2018, gross official reserves of the country amounted to US dollars 7.7 billion, equivalent to 4.3 months of imports. Meanwhile, reflecting the developments in the domestic foreign exchange market, the Sri Lankan rupee depreciated by 0.6 per cent against the US dollar in January 2018 and by 2.0 per cent so far during the year up to 5 April 2018.

Table 1: Summary of External Sector Performance (a)

| Category | 2017 US\$ mn | Change 17/16 (%) | January 2017 US\$ mn | January 2018 US\$ mn | Change Jan 18/Jan 17 (%) |
|--|-----------------|------------------------|----------------------------|----------------------------|--------------------------------|
| Exports | 11,360 | 10.2 | 865 | 965 | 11.6 |
| Imports | 20,980 | 9.4 | 1,799 | 2,014 | 12.0 |
| Trade balance (net) | -9,619 | | -934 | -1,049 | |
| Earnings from tourism | 3,925 (b) | 11.6 | 407 (b) | 443 (c) | 8.9 |
| Workers' remittances | 7,164 (d) (e) | -1.1 | 670 (d) (e) | 729 | 8.8 |
| Inflows to the CSE (net) (f) | 279 | | -11 | 37 | |
| Inflows to the Government | 5,702 | | 217 | 286 | |
| Treasury bills and bonds | 1,667 | | 83 | 170 | |
| International Sovereign Bonds | 1,500 | | - | - | |
| Long term loans | 1,535 | | 134 | 116 | |
| Foreign currency term financing facility | 1,000 | | - | - | |
| IMF - EFF Receipts | 419 | | - | - | |
| Foreign Direct Investment (g) | 1,913 | | | | |
| Overall Balance | 2,068 | | -212 | -6 | |

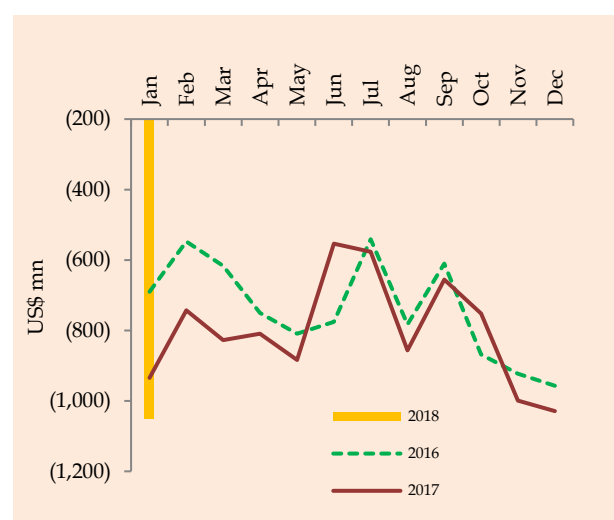
Sources: Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (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
- (g) Data available for 2017 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 balance expanded in January 2018 surpassing US dollars 1 billion for the second consecutive month due to significant level of imports offsetting the increase in export earnings.

Figure 1: Monthly Trade Balance

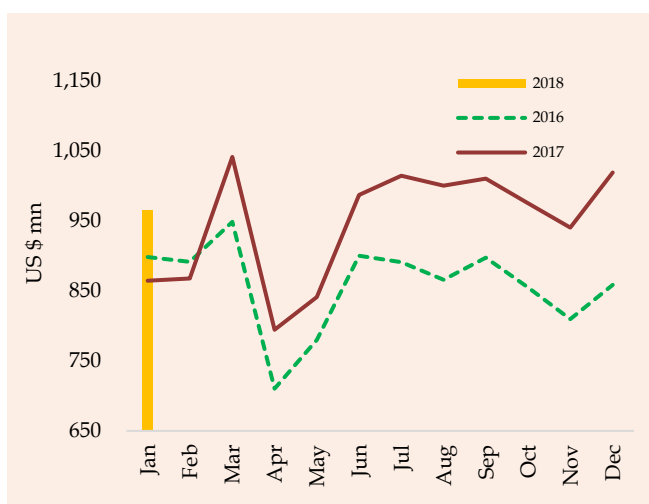


Sources: SLC, CBSL

Performance of Merchandise Exports

Earnings from exports continued to record double-digit growth (year-on-year) reaching US dollars 965 million in January 2018, partly driven by the impact of the low base as export earnings contracted by 3.8 per cent in January 2017. Export earnings from food, beverages and tobacco, petroleum products, rubber products and tea contributed largely to the growth in exports. Earnings from food, beverages and tobacco exports increased by more than twofold in January 2018 owing to higher earnings from almost all sub categories except for cereal preparations. Reflecting the increase in volumes, which grew by 72.1 per cent, and the increase in prices of bunker fuel, earnings from petroleum products exports increased notably in January 2018. Further, export earnings from rubber products increased due

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

to improved performance in almost all sub categories, particularly export of tyres. In addition, export earnings from textiles and garments increased moderately during the month due to the increase in earnings from garment exports to the EU and the USA by 4.9 per cent and 1.7 per cent, respectively, although there has been a reduction in exports to non-traditional markets such as Canada, UAE, China, Saudi Arabia and Japan. Meanwhile, earnings from tea exports increased due to higher prices and volumes. Further, earnings from gems, diamonds and jewellery, base metals and articles, machinery and mechanical appliances and leather, travel goods and footwear, categorised under industrial exports, as well as seafood and minor agricultural products, categorised under agricultural exports, also contributed towards the increase in export earnings. However, earnings from coconut exports declined significantly in January 2018 along with the decline in volumes of coconut kernel products such as desiccated coconut, coconut oil and copra as a result of the low domestic production of coconut due to drought conditions. In addition, export

earnings from printing industry products, rubber and spices decreased during the month. In January 2018, the USA, the UK, India, Germany and Italy were the leading markets for merchandise exports of Sri Lanka accounting for about 51 per cent of total exports.

Table 2: Earnings from Merchandise Export (a)

| Category | Jan - Dec 2017 (US\$ mn) | Change 17/16 (%) | January 2017 (US\$ mn) | January 2018 (US\$ mn) | Change Jan 18/Jan 17 (%) |
|-------------------------------------|--------------------------------|------------------------|------------------------------|------------------------------|--------------------------------|
| 1. Industrial exports | 8,541.9 | 7.6 | 668.0 | 757.6 | 13.4 |
| Food, beverages and tobacco | 392.7 | 21.3 | 22.1 | 48.2 | 118.3 |
| Animal fodder | 80.2 | 18.2 | 6.9 | 7.1 | 3.0 |
| Textiles and garments | 5,031.9 | 3.0 | 426.3 | 434.8 | 2.0 |
| o/w Garments | 4,739.3 | 3.0 | 405.2 | 409.3 | 1.0 |
| Textiles | 205.4 | 2.6 | 14.7 | 18.5 | 25.9 |
| Other made up textile articles | 87.3 | 7.6 | 6.4 | 7.0 | 8.4 |
| Rubber products | 835.4 | 8.8 | 58.0 | 71.0 | 22.6 |
| Gems, diamonds and jewellery | 257.5 | (6.0) | 21.8 | 27.5 | 26.4 |
| Machinery and mechanical appliances | 370.8 | 16.7 | 26.0 | 29.7 | 14.4 |
| Transport equipment | 162.3 | 23.4 | 7.3 | 7.4 | 1.4 |
| Petroleum products | 434.3 | 51.4 | 29.5 | 52.7 | 78.8 |
| Chemical products | 146.4 | 16.0 | 11.0 | 12.5 | 14.4 |
| Wood and paper products | 138.8 | 19.0 | 11.2 | 11.3 | 0.7 |
| Printing industry products | 48.8 | 15.3 | 4.6 | 1.5 | (67.5) |
| Leather, travel goods and footwear | 158.4 | (4.4) | 9.3 | 13.0 | 39.3 |
| Plastics and articles thereof | 74.6 | 12.5 | 4.7 | 6.2 | 33.8 |
| Base metals and articles | 115.9 | 29.3 | 8.2 | 12.1 | 48.7 |
| Ceramics products | 33.7 | (1.9) | 2.1 | 2.0 | (6.2) |
| Other industrial exports | 260.2 | 6.0 | 19.2 | 20.5 | 6.7 |
| 2. Agricultural exports | 2,767.2 | 19.0 | 193.7 | 204.1 | 5.4 |
| Tea | 1,529.8 | 20.5 | 101.6 | 111.8 | 10.1 |
| Rubber | 38.9 | 19.1 | 5.0 | 4.1 | (19.2) |
| Coconut | 347.9 | (4.9) | 27.3 | 21.1 | (22.5) |
| Spices | 406.2 | 28.1 | 30.4 | 30.0 | (1.3) |
| Vegetables | 28.5 | 7.5 | 1.8 | 1.9 | 3.3 |
| Unmanufactured tobacco | 36.5 | 17.1 | 2.0 | 1.8 | (13.7) |
| Minor agricultural products | 138.7 | 21.6 | 7.3 | 10.5 | 44.4 |
| Seafood | 240.6 | 41.9 | 18.2 | 22.9 | 25.8 |
| 3. Mineral and other | 51.4 | 18.0 | 3.0 | 3.6 | 19.3 |
| Total exports | 11,360.4 | 10.2 | 864.7 | 965.4 | 11.6 |

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

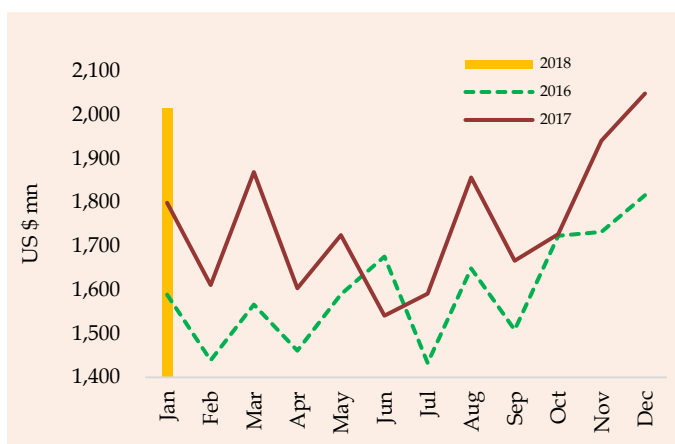
(a) Provisional

Performance of Merchandise Imports

Import expenditure surpassed the US dollars 2 billion mark in January 2018 for the second consecutive month mainly due to high import bills incurred on fuel. Despite the reduction in the volume of refined petroleum imports, expenditure on fuel imports increased significantly during the month owing to high volumes of crude

oil imports and significant price increases recorded in all categories of fuel. The average import price of crude oil increased to US dollars 72.04 per barrel in January 2018 from US dollar 57.39 per barrel in January 2017. Further, import expenditure on fertiliser increased significantly in January 2018 reflecting the combined impact of higher average import prices and volumes of fertiliser, particularly urea. Expenditure on gold imports continued to increase significantly in January 2018. In addition, following the reduction in taxes on electric motor vehicles in the Budget 2018, import expenditure on personal vehicles increased owing to high imports of electric motor vehicles. Further, import expenditure on base metals also increased mainly due to higher imports of iron and steel. Despite the decline recorded in average import prices of rice, import expenditure on rice rose in January 2018 due to high import volumes of rice. In addition, expenditure on dairy products, paper and paperboard and articles thereof, transport equipment, clothing and accessories, and building materials imports increased during the month. However, import expenditure on machinery and equipment decreased in January 2018 mainly due to the decline recorded in engineering equipment, telecommunication devices, and medical and laboratory equipment. Also, expenditure on textile and textile articles imports declined during the month, driven by the decline in import of fabrics. Import expenditure on agricultural inputs, spices and rubber products also decreased in January 2018. India, China, UAE, Japan and Singapore were the main import origins in January 2018, accounting for about 58 per cent of total imports.

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

Table 3: Expenditure on Merchandise Import (a)

| Category | Jan - Dec 2017 (US\$ mn) | Change 17/16 (%) | January 2017 (US\$ mn) | January 2018 (US\$ mn) | Change Jan 18/Jan 17 (%) |
|---|--------------------------------|------------------------|------------------------------|------------------------------|--------------------------------|
| 1. Consumer goods | 4,502.5 | 4.3 | 358.8 | 441.5 | 23.0 |
| Food and beverages | 1,841.1 | 13.1 | 143.6 | 183.7 | 27.9 |
| Cereals and milling industry products | 314.5 | 1,320.2 | 12.7 | 33.2 | 160.9 |
| o/w Rice | 300.9 | 2,244.7 | 11.7 | 31.3 | 167.4 |
| Dairy products | 315.8 | 26.7 | 21.1 | 31.9 | 51.4 |
| Sugar and confectionery | 258.0 | (25.1) | 22.0 | 27.6 | 25.5 |
| Seafood | 217.5 | (8.3) | 18.2 | 20.6 | 13.4 |
| Spices | 92.8 | (29.7) | 9.5 | 7.5 | (20.3) |
| Beverages | 81.5 | (16.8) | 6.0 | 4.8 | (20.1) |
| Oils and fats | 46.0 | 28.1 | 4.3 | 4.7 | 10.7 |
| Other food and beverages | 514.9 | 1.3 | 49.9 | 53.3 | 6.7 |
| Non-food consumer goods | 2,661.5 | (1.1) | 215.2 | 257.8 | 19.8 |
| Vehicles | 772.7 | (2.8) | 66.0 | 95.0 | 44.1 |
| Clothing and accessories | 369.0 | 0.9 | 30.1 | 37.5 | 24.6 |
| Household and furniture items | 186.2 | 2.2 | 13.7 | 15.8 | 15.0 |
| Medical and pharmaceuticals | 520.0 | (1.1) | 38.9 | 44.1 | 13.4 |
| Telecommunication devices | 281.2 | 13.8 | 22.1 | 24.4 | 10.4 |
| Cosmetics and toiletries | 77.4 | (10.8) | 7.4 | 6.8 | (8.8) |
| Rubber products | 94.3 | (15.8) | 9.7 | 7.8 | (19.6) |
| Other non-food consumables | 360.8 | (4.4) | 27.3 | 26.4 | (3.3) |
| 2. Intermediate goods | 11,435.8 | 15.9 | 950.6 | 1,133.3 | 19.2 |
| Fuel | 3,427.9 | 38.2 | 282.8 | 362.0 | 28.0 |
| o/w Crude oil | 704.0 | 18.1 | 42.0 | 103.4 | 146.6 |
| Refined petroleum | 2,462.5 | 45.9 | 204.7 | 223.9 | 9.4 |
| Coal | 261.5 | 32.9 | 36.1 | 34.7 | (3.8) |
| Diamonds, precious stones and metals | 772.4 | 50.1 | 69.0 | 104.7 | 51.8 |
| o/w Gold | 649.8 | 73.7 | 64.1 | 93.7 | 46.1 |
| Textiles and textile articles | 2,724.2 | 0.7 | 253.0 | 245.2 | (3.1) |
| Base metals | 628.7 | 37.8 | 38.4 | 59.6 | 55.4 |
| Plastic and articles thereof | 632.6 | 2.4 | 49.7 | 54.7 | 10.1 |
| Paper and paperboard and articles thereof | 484.6 | (0.5) | 34.1 | 43.1 | 26.7 |
| Fertiliser | 102.8 | (24.9) | 4.2 | 42.4 | 918.9 |
| Mineral products | 211.1 | (4.9) | 15.1 | 13.7 | (9.3) |
| Agricultural inputs | 204.3 | 16.6 | 15.6 | 12.9 | (17.1) |
| Unmanufactured tobacco | 67.7 | 0.1 | 3.4 | 2.2 | (35.3) |
| Other intermediate goods | 2,179.4 | 8.6 | 185.6 | 192.7 | 3.8 |
| 3. Investment goods | 4,894.7 | (1.7) | 432.2 | 436.9 | 1.1 |
| Machinery and equipment | 2,620.6 | (4.4) | 250.6 | 240.3 | (4.1) |
| Building material | 1,591.4 | 1.4 | 136.0 | 143.1 | 5.3 |
| Transport equipment | 674.9 | 1.8 | 44.3 | 52.7 | 19.1 |
| Other investment goods | 7.8 | (7.8) | 1.4 | 0.7 | (51.7) |
| 4. Unclassified imports | 146.8 | 1,024.6 | 57.3 | 2.9 | (95.0) |
| Total imports | 20,979.8 | 9.4 | 1,798.9 | 2,014.5 | 12.0 |

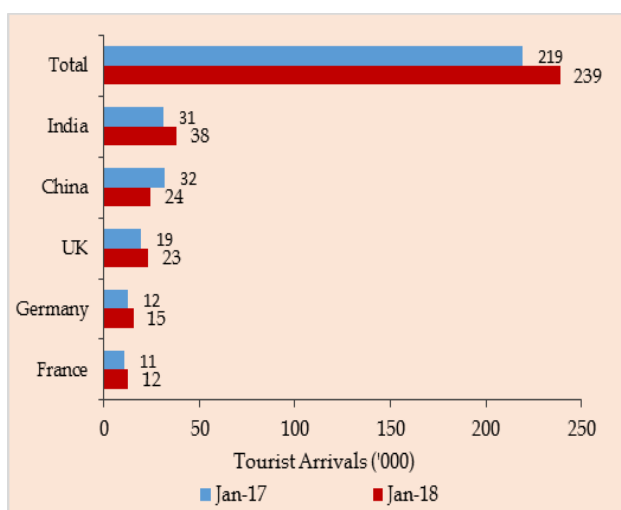
Sources: SLC, CPC, Lanka IOC PLC, CBSL

(a) Provisional

Other Major Inflows to the Current Account

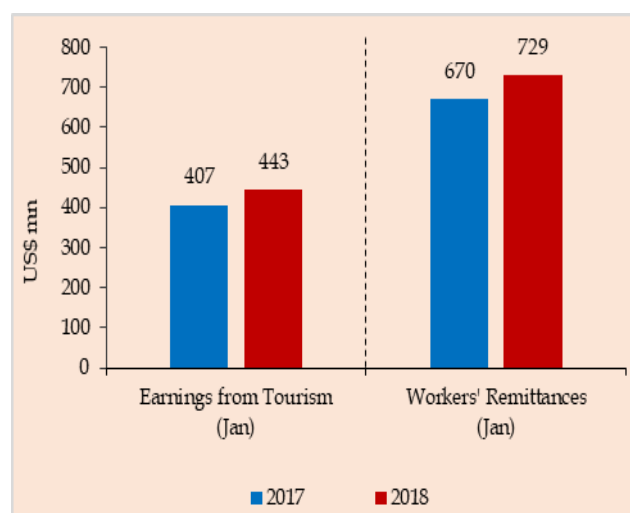
In January 2018, tourist arrivals increased notably by 8.9 per cent recording the second highest number of arrivals in a given month. Accordingly, the number of tourist arrivals during the month was 238,924 in comparison to the highest monthly arrival of 244,536 in December 2017. The top five sources of tourist arrivals, India, China, the UK, Germany and France, accounted for 47.2 per cent of the total tourist arrivals in January 2018. Following the same trend in tourist arrivals, earnings from tourism¹ increased, year-on-year, to US dollars 443 million in January 2018. Meanwhile, workers' remittances grew by 8.8 per cent, year-on-year, to US dollars 729 million in January 2018 compared to US dollars 670 million in January 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

Foreign investments in the government securities market witnessed a net inflow for the eleventh consecutive month in January 2018 in comparison to the net outflow recorded in January 2017. Foreign investments in the CSE including primary and secondary market flows also recorded a net inflow during the month compared to the

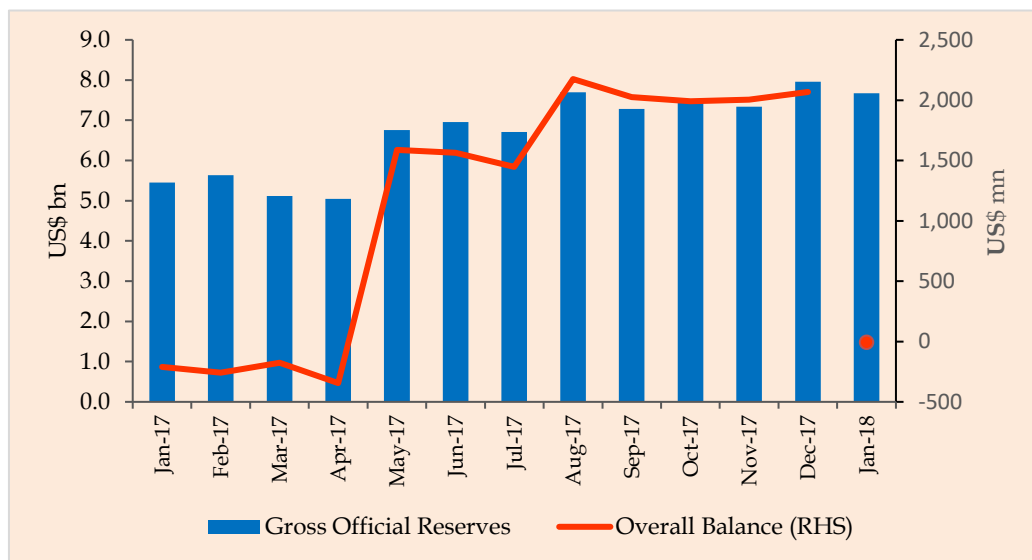
¹ This provisional estimate may be revised once the Sri Lanka Tourism Development Authority releases its survey results on average stay period and average spending per day estimates for 2018.

net outflow recorded in the corresponding period of 2017. Further, long term loan inflows to the government recorded a net outflow of US dollars 2.5 million during the month. In terms of foreign direct investments (FDIs) including foreign loans to BOI companies in 2017, Sri Lanka received US dollars 1,913 million, registering the highest ever FDI inflows in the history.

International Reserves

The level of gross official reserves of the country declined to US dollars 7.7 billion, equivalent to 4.3 months of imports, at end January 2018 compared to US dollars 8.0 billion at end 2017, primarily due to a periodic payment for the obligations at the Asian Clearing Union (ACU) during the month. Total foreign assets, which include foreign assets of the banking sector, also declined to US dollars 10.0 billion (equivalent to 5.7 months of imports) at end January 2018 from US dollars 10.4 billion at the end of 2017.

Figure 6: Gross Official Reserves and Overall Balance

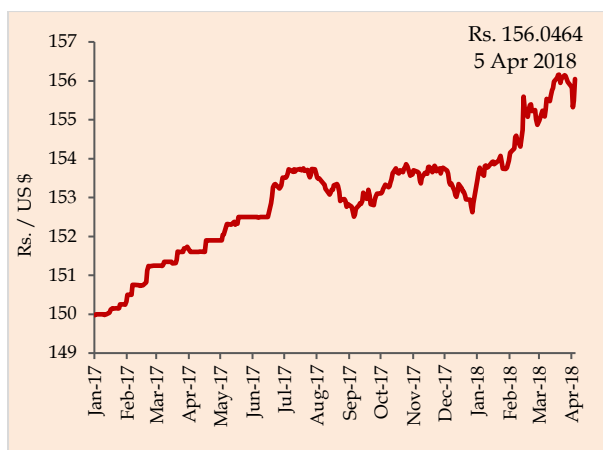


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee depreciated by 2.0 per cent against the US dollar up to 5 April 2018. 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 5 April 2018 Appreciation (+) / Depreciation (-) |
|-------------------|--------|--|
| US dollar | -2.0% | -2.0% |
| Euro | -13.5% | -4.8% |
| Pound sterling | -10.5% | -6.4% |
| Japanese yen | -5.1% | -7.1% |
| Canadian dollar | -8.6% | -0.5% |
| Australian dollar | -9.0% | -1.0% |
| Indian rupee | -7.5% | -0.6% |

Source: CBSL