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CENTRAL BANK OF SRI LANKA

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Press Release

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External Sector Performance - April 2018

Overview

Sri Lanka's external sector strengthened in April 2018 with continuous inflows to the financial account of the balance of payments (BOP) despite the mixed performance demonstrated in the current account. Higher inflows to the financial account, particularly with the proceeds of the 12th international sovereign bond (ISB) issuance, project loans and FCBU loans and foreign investment in the Colombo Stock Exchange (CSE) and the government securities market, resulted in gross official reserves reaching the historically highest level of US dollars 9.9 billion as at end April 2018. In terms of the current account, the trade deficit expanded in April 2018 as import expenditure increased at a higher pace while export earnings remained subdued. However, tourist earnings and workers' remittances continued to record a healthy growth during the month.

Table 1: Summary of External Sector Performance (a)

Category	April 2017 US\$ mn	April 2018 US\$ mn	Change (%)	Jan-Apr 2017 US\$ mn	Jan-Apr 2018 US\$ mn	Change (%)
Exports	795	795	0.0	3,569	3,784	6.0
Imports	1,604	1,794	11.8	6,883	7,765	12.8
Trade balance (net)	-809	-999		-3,314	-3,981	
Earnings from tourism	297 (b)	335 (c)	12.6	1,419 (b)	1,647 (c)	16.1
Workers' remittances	488(d)	541	10.9	2,399 (d)	2,520	5.0
Inflows to the CSE (net) (e)	71	28		156	47	
Inflows to the Government (gross)	166	2,692		803	3,476	
Treasury bills and bonds	103	122		385	480	
Long term loans	63	70		418	496	
International Sovereign Bonds	-	2,500		-	2,500	
Foreign Direct Investment (f)	-	-		193	492	
Overall Balance				-344	2,036	

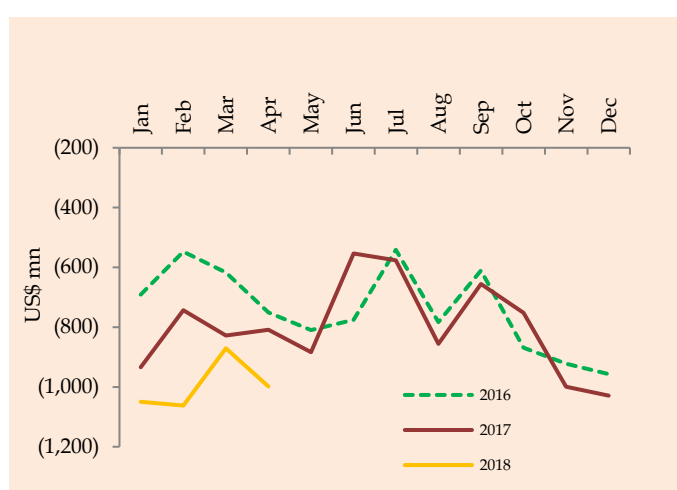
Sources: Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (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) Include secondary and primary market transactions
- (f) Data available for the first three 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 April 2018 reversing the deceleration observed in the previous month. This expansion was largely driven by the increase in expenditure on imports while earnings from exports remained stagnant. The cumulative trade deficit also expanded during the first four months of 2018.

Figure 1: Monthly Trade Balance



Sources: SLC, CBSL

Performance of Merchandise Exports

In April 2018, merchandise export earnings remained unchanged at US dollars 795 million when compared with April 2017. Earnings from industrial exports showed a slight growth while agricultural and mineral exports declined. Under industrial exports, earnings from food, beverages and tobacco exports rose driven by the increase in coconut related products categorised under

vegetable, fruit and nut preparations. Earnings from petroleum product exports increased due to higher prices for bunker and aviation fuel and the marginal increase in volumes. Rubber product exports increased due to higher earnings from tyre exports. In contrast, earnings from textiles and garment exports declined for the first time since June 2017. Notably, export of garments to the USA and non-traditional markets declined in April 2018 in comparison to April 2017, while exports to the EU market showed a marginal growth. Further, earnings from transport equipment declined in April 2018 mainly due to the base effect as April 2017 registered the export of a cargo vessel. The subdued performance in spices, minor agricultural products and coconut kernel products also contributed to the contraction in agricultural exports. However, export earnings of all sub categories of sea food increased while earnings from tea exports increased marginally with higher volumes exported despite a decline in average export prices. Leading markets for merchandise exports of Sri Lanka, in April 2018, were the USA, the UK, India, Germany and Italy accounting for about 49 per cent of total exports.

Figure 2: Monthly Export Performance

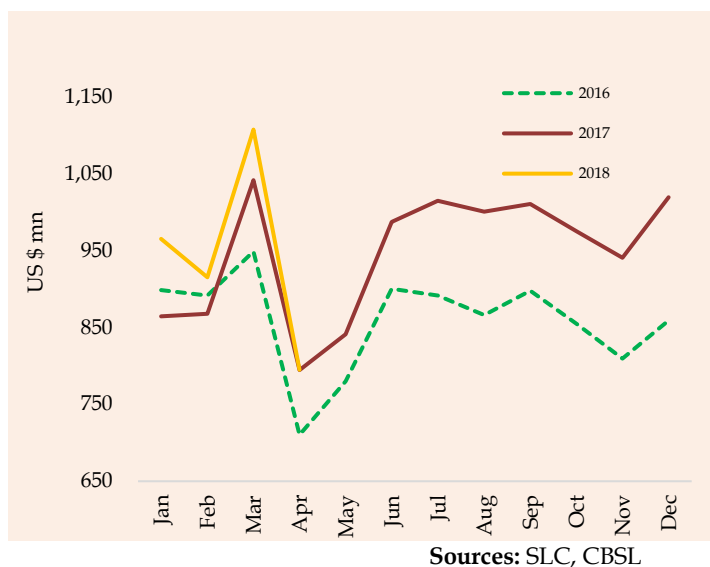


Table 2: Earnings from Merchandise Exports (a)

Category	April 2017 (US\$ mn)	April 2018 (US\$ mn)	Change (%)	Jan - Apr 2017 (US\$ mn)	Jan - Apr 2018 (US\$ mn)	Change (%)
1. Industrial exports	594.9	601.3	1.1	2,701.5	2,923.3	8.2
Food, beverages and tobacco	24.9	33.5	34.5	101.4	155.0	52.9
Animal fodder	5.9	12.1	105.6	28.7	38.2	33.3
Textiles and garments	350.5	338.6	(3.4)	1,626.3	1,667.2	2.5
o/w Garments	330.7	316.9	(4.2)	1,531.7	1,563.5	2.1
Textiles	13.5	14.8	9.8	69.0	73.0	5.8
Other made up textile articles	6.3	6.8	7.9	25.6	30.7	19.8
Rubber products	48.9	55.3	13.1	248.4	280.5	12.9
Gems, diamonds and jewellery	16.4	17.4	5.9	80.9	106.7	31.8
Machinery and mechanical appliances	24.6	30.0	21.7	126.5	138.8	9.7
Transport equipment	27.4	6.0	(78.3)	66.3	34.6	(47.9)
Petroleum products	29.5	37.7	27.8	120.1	173.2	44.2
Chemical products	11.2	11.2	(0.1)	47.1	52.2	11.0
Wood and paper products	10.0	10.0	0.1	45.3	47.4	4.6
Printing industry products	2.7	0.4	(87.0)	12.7	5.2	(59.0)
Leather, travel goods and footwear	8.3	10.8	29.0	49.2	52.4	6.5
Plastics and articles thereof	6.1	5.6	(8.1)	23.5	26.1	11.1
Base metals and articles	7.7	11.0	42.6	35.3	47.4	34.4
Ceramics products	2.3	1.6	(31.5)	10.5	9.3	(11.0)
Other	18.1	20.3	11.6	79.2	89.0	12.3
2. Agricultural exports	195.8	190.3	(2.8)	851.7	843.4	(1.0)
Tea	109.1	109.6	0.5	458.2	478.1	4.3
Rubber	2.6	2.3	(9.4)	19.0	14.1	(25.6)
Coconut	24.8	22.6	(8.5)	115.7	100.9	(12.8)
Spices	23.2	17.8	(23.5)	109.2	96.0	(12.1)
Vegetables	2.7	2.3	(14.7)	9.6	8.7	(9.4)
Unmanufactured tobacco	2.5	2.3	(6.2)	10.4	11.3	8.0
Minor agricultural products	12.7	10.5	(17.7)	45.3	41.0	(9.7)
Seafood	18.3	22.8	24.9	84.2	93.2	10.7
3. Mineral and other	4.0	3.4	(13.7)	15.8	17.1	7.8
Total exports	794.7	795.1	0.0	3,569.0	3,783.7	6.0

(a) Provisional

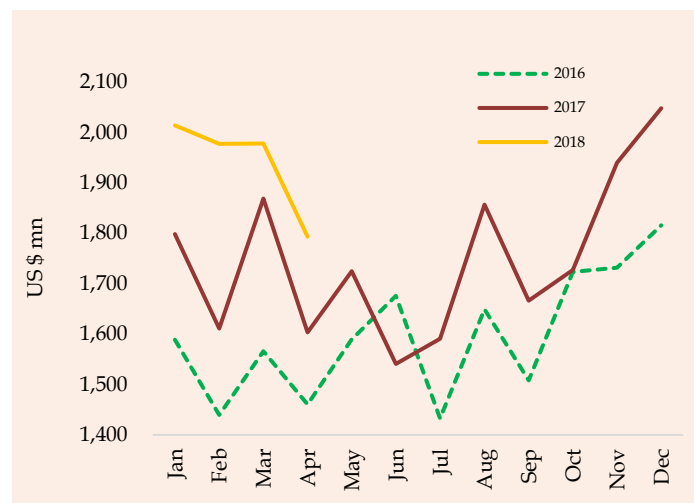
Sources: SLC, National Gem and Jewellery Authority (NGJA), Ceylon Petroleum Corporation (CPC) and Other Exporters of Petroleum, CBSL

Performance of Merchandise Imports

In April 2018, expenditure on imports increased to US dollars 1,794 million, registering a double-digit year-on-year growth. This growth was supported by the increase in all main categories. Import expenditure on personal vehicles, categorised under consumer goods, contributed mainly to the overall growth in imports due to the substantial increase in imports of small engine capacity vehicles,

hybrids and electric vehicles. Expenditure on rice imports recorded the lowest value for the past ten months despite a growth in comparison to April 2017. Under intermediate goods, gold imports continued to increase (year-on-year) in April 2018. In order to stem the increasing trend in gold imports, the government imposed 15 per cent customs duty with effect from 18 April 2018. Accordingly, expenditure on gold imports is expected to decline in the coming months of the year. Expenditure on base metals imports increased in April 2018 owing to higher imports of iron and steel and aluminium articles. The increase in imports of plastic and articles and fertiliser also contributed substantially to the growth in intermediate goods. Import expenditure on fuel increased marginally with higher imports of refined petroleum while expenditure on crude oil and coal imports declined substantially. Meanwhile, expenditure on textiles and textile articles reduced marginally driven by lower fabric imports in April 2018. Machinery and equipment mainly contributed to the growth in import expenditure of investment goods while expenditure on the import of transport equipment also increased driven by commercial vehicles such as buses and tractors. Meanwhile, cement imports mainly contributed to the decline in building materials during the month. India, China, Japan, UAE and Singapore were the main import origins in April 2018, accounting for about 59 per cent of total imports.

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	April 2017 (US\$ mn)	April 2018 (US\$ mn)	Change (%)	Jan - Apr 2017 (US\$ mn)	Jan - Apr 2018 (US\$ mn)	Change (%)
1. Consumer goods	345.1	419.6	21.6	1,515.6	1,780.0	17.4
Food and beverages	123.9	126.4	2.0	629.2	652.7	3.7
Cereals and milling industry products	11.2	15.9	42.9	114.6	105.5	(7.9)
o/w Rice	10.5	14.2	35.9	110.7	98.8	(10.7)
Seafood	14.2	18.2	28.5	68.7	76.8	11.8
Dairy products	25.6	22.1	(13.6)	110.4	115.3	4.4
Vegetables	22.8	20.6	(9.5)	124.3	119.1	(4.2)
Sugar and confectionery	22.8	17.0	(25.5)	86.6	105.1	21.4
Spices	5.6	7.8	40.6	33.0	33.2	0.7
Beverages	6.1	7.8	27.6	25.7	24.1	(6.4)
Other food and beverages	15.8	17.0	7.5	65.8	73.5	11.7
Non-food consumer goods	221.2	293.2	32.6	886.5	1,127.4	27.2
Vehicles	56.3	157.8	180.2	248.2	516.6	108.2
Medical and pharmaceuticals	36.6	38.7	5.9	161.8	168.7	4.3
Telecommunication devices	12.5	24.0	92.4	92.3	97.0	5.1
Clothing and accessories	56.7	19.3	(66.0)	143.5	116.1	(19.0)
Home appliances	21.1	19.1	(9.8)	92.4	87.3	(5.5)
Household and furniture items	16.9	12.6	(25.1)	54.0	57.2	5.9
Rubber Products	5.8	6.9	17.5	30.8	29.8	(3.4)
Other non-food consumables	15.3	14.9	(2.6)	63.4	54.6	(14.0)
2. Intermediate goods	885.7	978.4	10.5	3,692.2	4,329.8	17.3
Fuel	325.6	326.8	0.4	1,208.3	1,402.0	16.0
o/w Crude oil	81.5	50.4	(38.2)	207.6	203.8	(1.9)
Refined petroleum	204.6	257.0	25.6	829.9	1,054.0	27.0
Coal	39.5	19.4	(50.8)	170.8	144.2	(15.5)
Diamonds, precious stones and metals	49.6	98.9	99.5	224.6	474.0	111.0
o/w Gold	41.6	92.0	121.0	193.1	437.3	126.5
Base metals	39.9	53.5	34.1	192.6	188.9	(1.9)
Textiles and textile articles	193.9	191.6	(1.2)	860.6	882.7	2.6
Chemical products	63.5	71.1	12.0	274.2	291.4	6.3
Plastic and articles thereof	48.0	60.2	25.5	201.8	238.0	17.9
Paper, paperboard and articles thereof	30.7	36.9	20.1	137.1	159.6	16.3
Wheat and maize	35.2	23.0	(34.5)	117.8	130.2	10.6
Fertiliser	2.8	13.8	397.1	22.6	88.5	291.0
Other	96.6	102.6	6.2	452.5	474.6	4.9
3. Investment goods	372.5	394.7	6.0	1,614.6	1,590.7	(1.5)
Machinery and equipment	185.7	215.6	16.1	871.9	866.9	(0.6)
Building material	134.3	121.3	(9.7)	524.1	499.7	(4.7)
Transport equipment	51.6	57.5	11.4	215.1	221.4	2.9
Other investment goods	0.9	0.3	(65.1)	3.4	2.7	(20.8)
4. Unclassified imports	0.6	0.9	48.1	60.9	64.1	5.3
Total imports	1,603.9	1,793.6	11.8	6,883.3	7,764.6	12.8

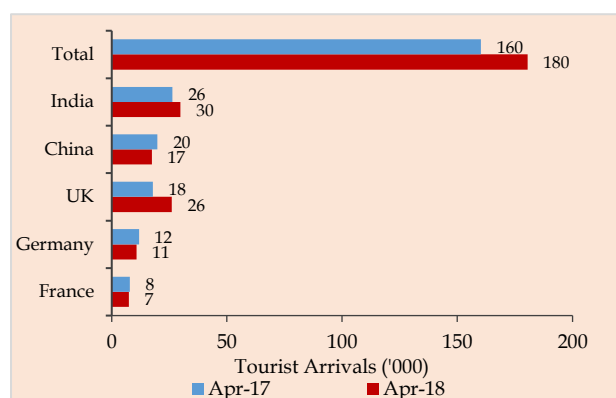
(a) Provisional

Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

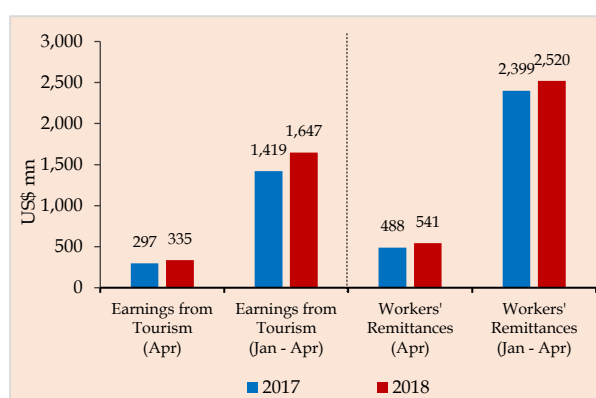
The healthy growth in the number of tourists arriving from India, the United Kingdom and Australia resulted in tourist arrivals increasing by 12.6 per cent in April 2018 in comparison to April 2017. Total tourist arrivals during the first four months of 2018 grew by 16.1 per cent to 888,353 in comparison to the corresponding period of 2017. Earnings from tourism in April 2018 are estimated at US dollars 335 million, with cumulative earnings during the first four months of 2018 amounting to US dollars 1,647 million. Meanwhile, continuing the growth momentum observed in the previous month, workers' remittances increased markedly by 10.9 per cent to US dollars 541 million in April 2018. Consequently, workers' remittances increased by 5.0 per cent to US dollars 2,520 million during the first four months of 2018 in comparison to the corresponding period 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

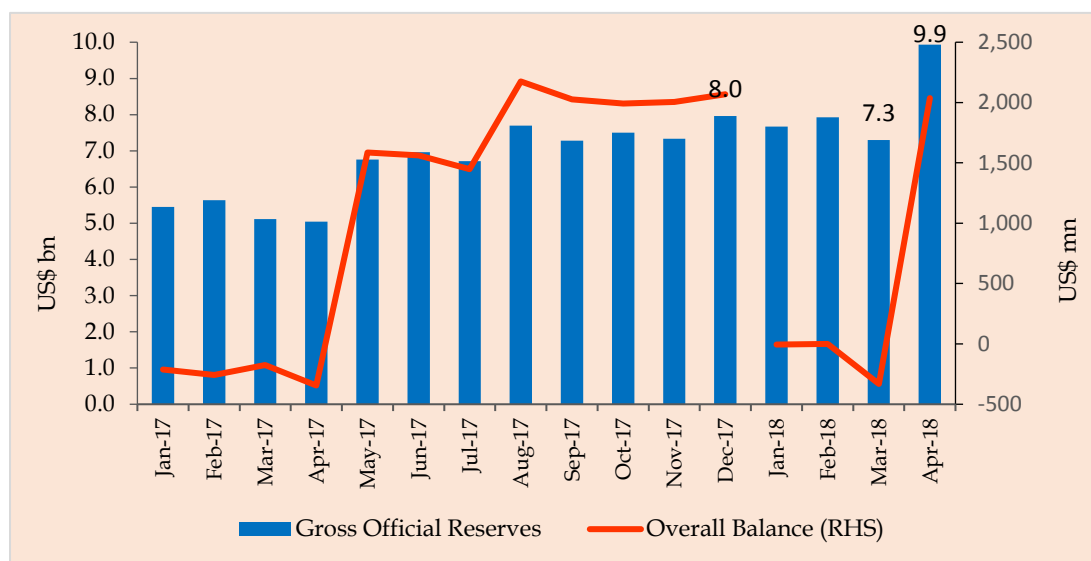
Foreign investments in the CSE, including both secondary and primary market foreign exchange flows, recorded a net inflow of US dollars 28.4 million during the month of April 2018. Consequently, cumulative net inflows to the CSE in the first four months of 2018 amounted to US dollars 47.2 million. Meanwhile, net inflows to the Treasury bonds market exceeded the net outflows from the Treasury bills market resulting in an overall net inflow of US dollars 13.6 million to the government securities market

in April 2018. Further, long term loans to the government recorded a net inflow of US dollars 30.1 million during April 2018.

International Reserves

With proceeds of the ISB issuance, the level of gross official reserves of the country increased to US dollars 9.9 billion, equivalent to 5.5 months of imports, at end April 2018. Total foreign assets, including foreign assets of the banking sector, were estimated at US dollars 12.3 billion as at end April 2018, which was sufficient to cover 6.8 months of imports.

Figure 6: Gross Official Reserves and Overall Balance

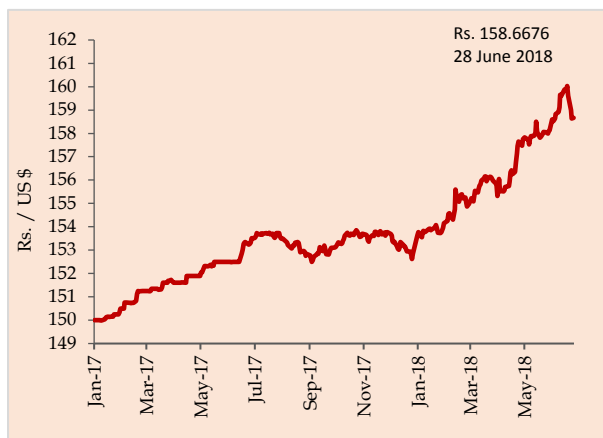


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee depreciated by 3.7 per cent against the US dollar during the year up to 28 June 2018. Furthermore, reflecting cross currency movements, the Sri Lankan rupee depreciated against other major currencies except for the Canadian dollar, the Australian dollar and the Indian rupee during this period. The weakening of the Sri Lankan rupee against the US dollar partly reflects a broad-based strengthening of the US dollar globally.

Figure 7: Movement of Sri Lankan Rupee Against US\$



Source: CBSL

Table 4: Movement of Sri Lankan Rupee Against Selected Currencies

Currency	2017	Up to 28 June 2018 Appreciation (+) / Depreciation (-)
US dollar	-2.0%	-3.7%
Euro	-13.5%	-0.6%
Pound sterling	-10.5%	-1.2%
Japanese yen	-5.1%	-5.9%
Canadian dollar	-8.6%	+2.2%
Australian dollar	-9.0%	+2.1%
Indian rupee	-7.5%	+3.2%

Source: CBSL