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Press Release

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External Sector Performance – July 2018

Overview

Sri Lanka's external sector recorded a moderate performance in July 2018. The trade deficit continued to widen in July 2018 (year-on-year) with higher import expenditure despite export earnings surpassing US dollars 1 billion during the month. Earnings from tourism recorded a modest growth while workers' remittances declined marginally, on a year-on-year basis, during the month. The financial account recorded moderate inflows during July, while requirements of debt servicing and other outflows resulted in a decline in gross official reserves to US dollars 8.4 billion as at end July 2018. The foreign exchange market continued to be under pressure with outflows of foreign investments from the government securities market and increased foreign exchange demand for imports thus necessitating intervention by the Central Bank to curtail intraday excess volatility in the exchange rate.

Table 1: Summary of External Sector Performance (a)

Category	July 2017 US\$ mn	July 2018 US\$ mn	Change (%)	Jan-July 2017 US\$ mn	Jan-July 2018 US\$ mn	Change (%)
Exports	1,015	1,073	5.7	6,413	6,805	6.1
Imports	1,591	1,754	10.3	11,740	13,196	12.4
Trade balance (net)	-576	-681		-5,327	-6,391	
Earnings from tourism	381 (b)	404 (c)	6.0	2,255 (b)	2,564 (c)	13.7
Workers' remittances	629 (d)	619	-1.6	4,220 (d)	4,243	0.5
Inflows to the CSE (net) (e)	23	-3		253	50	
Inflows to the Government (gross)	289	72		3,658	3,942	
Treasury bills and bonds	204	29		934	582	
Long term loans	86	43		774	860	
Syndicated loans	-	-		450	-	
International Sovereign Bonds	-	-		1,500	2,500	
IMF-EFF Receipts	167	-		167	252	
Foreign Direct Investment (f)				567	1,353	
Overall Balance				1,449	554	

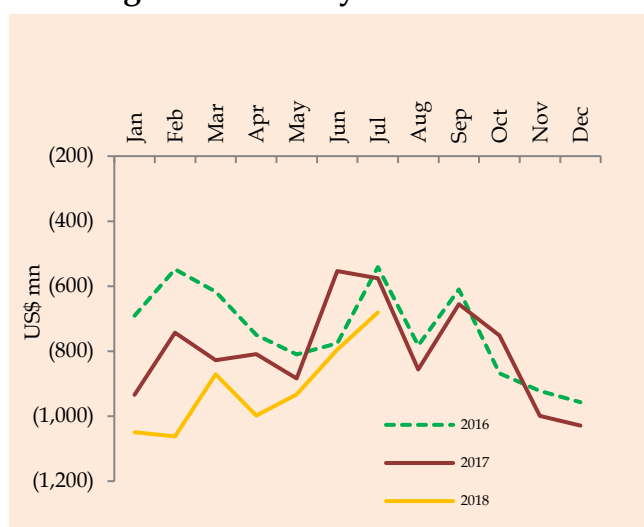
Sources: Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (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 six 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 continued to expand in July 2018 in comparison to July 2017 due to higher growth in imports. On a cumulative basis, the deficit in the trade account widened considerably during the first seven months of 2018 in comparison to the corresponding period of 2017.

Figure 1: Monthly Trade Balance



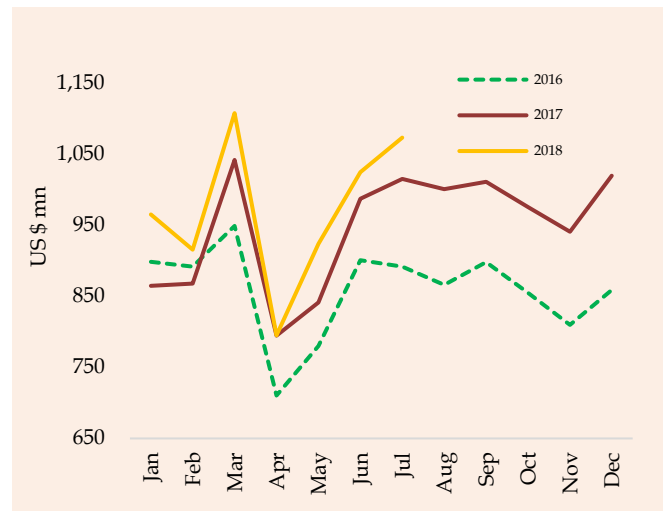
Sources: SLC, CBSL

Performance of Merchandise Exports

Earnings from merchandise exports surpassed US dollars 1 billion for the second consecutive month in July 2018. Accordingly, earnings from exports increased by 5.7 per cent (year-on-year) to US dollars 1,073 million. Earnings from industrial exports contributed to increased export earnings while agricultural and mineral exports recorded poor performance during the month.

Under industrial exports, earnings from export of petroleum products increased significantly due to higher export prices of bunker and aviation fuel despite reduction in volumes. Export earnings from transport equipment increased considerably during the month owing to the export of a cruise ship to Singapore. Reflecting the increase recorded in almost all sub categories, earnings from machinery and mechanical appliances increased substantially in July 2018. In addition, earnings from food, beverages and tobacco, gems, diamonds and jewellery, chemical products, base metals and articles and animal fodder increased in July 2018 contributing towards increasing industrial exports. However, export earnings from textiles and garments declined marginally in July 2018 due to the decline in demand from the USA and non-traditional markets such as Canada, UAE and Australia and the base effect which reflected significantly high export earnings in July 2017. Meanwhile, earnings from agricultural exports reduced during the month due to poor performance in almost all categories except vegetables and minor agricultural exports. While export earnings from tea declined due to the drop in both prices and volumes exported, earnings from coconut declined owing to the reduction in all kernel categories as a result of lower export volumes despite higher prices reported for these products. Leading markets for merchandise exports of Sri Lanka in July 2018 were the USA, the UK, India, Germany and Italy, which accounted for about 48 per cent of total exports.

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	July 2017 (US\$ mn)	July 2018 (US\$ mn)	Change (%)	Jan - July 2017 (US\$ mn)	Jan - July 2018 (US\$ mn)	Change (%)
1. Industrial exports	756.6	843.6	11.5	4,822.4	5,277.3	9.4
Food, beverages and tobacco	33.5	38.8	15.7	224.3	271.1	20.8
Animal fodder	4.6	11.9	157.8	45.2	66.0	46.1
Textiles and garments	466.6	465.6	(0.2)	2,850.2	2,984.6	4.7
o/w Garments	441.1	435.2	(1.3)	2,685.8	2,786.0	3.7
Textiles	18.4	22.6	22.8	118.1	143.2	21.2
Other made up textile articles	7.2	7.9	10.1	46.3	55.4	19.6
Rubber products	78.5	77.4	(1.5)	467.1	503.8	7.9
Gems, diamonds and jewellery	17.4	19.4	11.5	141.4	170.9	20.9
Machinery and mechanical appliances	29.1	38.4	32.1	209.5	258.3	23.3
Transport equipment	6.7	31.4	368.2	131.7	82.4	(37.4)
Petroleum products	35.7	68.8	93.0	212.6	340.9	60.3
Chemical products	13.7	17.0	24.2	83.9	98.8	17.7
Wood and paper products	11.5	11.1	(3.5)	79.0	81.5	3.2
Printing industry products	6.3	4.2	(32.8)	24.0	14.4	(39.9)
Leather, travel goods and footwear	12.8	13.1	2.6	90.5	90.6	0.2
Plastics and articles thereof	5.5	5.6	1.4	41.3	44.2	6.8
Base metals and articles	9.5	14.7	54.2	60.9	91.7	50.6
Ceramics products	3.2	2.7	(17.8)	19.2	17.3	(10.0)
Other	22.0	23.5	6.9	141.6	160.7	13.5
2. Agricultural exports	253.3	225.7	(10.9)	1,559.7	1,498.0	(4.0)
Tea	143.0	125.2	(12.4)	871.4	854.2	(2.0)
Rubber	2.1	1.6	(25.1)	26.1	20.3	(22.0)
Coconut	32.5	28.2	(13.3)	206.3	178.3	(13.6)
Spices	37.7	34.3	(9.1)	198.4	184.0	(7.3)
Vegetables	2.3	3.5	51.6	16.9	16.0	(5.3)
Unmanufactured tobacco	3.6	3.0	(16.5)	20.0	19.8	(0.9)
Minor agricultural products	11.8	11.9	1.2	83.2	74.0	(11.0)
Seafood	20.3	18.0	(11.2)	137.4	151.4	10.2
3. Mineral and other	5.3	3.9	(26.0)	30.6	29.8	(2.9)
Total exports	1,015.2	1,073.2	5.7	6,412.7	6,805.0	6.1

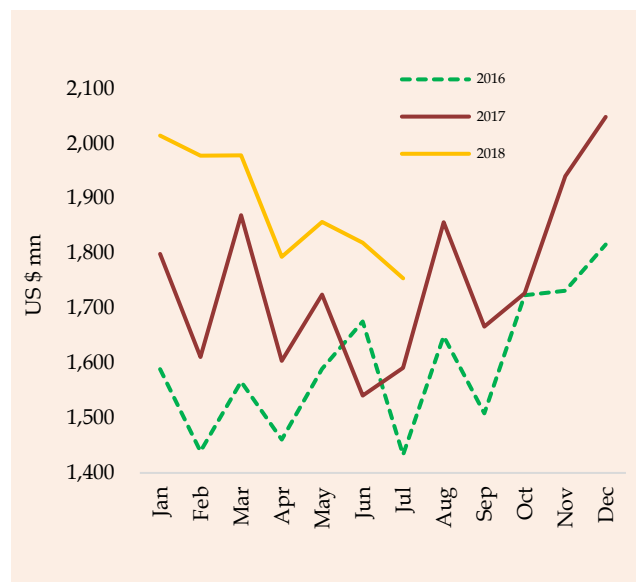
Sources: SLC, National Gem and Jewellery Authority (NGJA), Ceylon Petroleum Corporation (CPC) and Other Exporters of Petroleum, CBSL
(a) Provisional

Performance of Merchandise Imports

Expenditure on merchandise imports increased by 10.3 per cent (year-on-year) to US dollars 1,754 million in July 2018. The increased expenditure in all major import categories, on a year-on-year basis, as well as the effect of the low base in 2017, contributed to this growth. Under intermediate goods, expenditure on fuel imports increased significantly during the month owing to higher import prices of crude oil and refined petroleum products. Expenditure on

textiles and textile articles imports increased in July 2018 due to higher expenses on yarn and fabric imports. Meanwhile, import expenditure on base metals increased during the month led by the high expenditure incurred on iron and steel imports. Further, import expenditure on chemical products, plastic and articles thereof, fertiliser and unmanufactured tobacco contributed towards the increase in intermediate goods imports in July 2018. However, reflecting the impact of the imposition of 15 per cent custom duty on gold imports, expenditure on importation of gold declined considerably for the third consecutive month in July 2018. Also, expenditure on wheat and maize and food preparations decreased during the month contributing to lowering the expenditure on intermediate goods imports. Meanwhile, consumer goods imports increased mainly due to higher imports of personal motor vehicles, particularly cars with less than 1,000 cylinder capacity (cc), hybrid and electric motor cars. To curb imports of small vehicles, taxes applicable on these categories were revised upward with effect from 01st August 2018. Further, a 100 per cent margin deposit requirement against letters of credit on non-commercial vehicle imports was imposed with effect from 19th September 2018. Considering the continuous pressure on the BOP from increased imports, the government and the Central Bank implemented further measures to restrict the importation of vehicles and certain non-essential consumer goods. However, expenditure on food and beverages declined in July 2018 as a result of lower rice imports owing to the healthy harvest obtained during the Maha season. Meanwhile, import expenditure on investment

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

goods increased owing to higher imports of machinery and equipment, building material and transport equipment. India, China, UAE, Japan and Singapore were the main import origins in July 2018 accounting for about 62 per cent of total imports.

Table 3: Expenditure on Merchandise Imports (a)

Category	July 2017 (US\$ mn)	July 2018 (US\$ mn)	Change (%)	Jan - July 2017 (US\$ mn)	Jan - July 2018 (US\$ mn)	Change (%)
1. Consumer goods	334.5	389.4	16.4	2,556.3	3,010.1	17.8
Food and beverages	133.1	112.5	(15.5)	1,056.6	1,019.5	(3.5)
Cereals and milling industry products	24.2	1.8	(92.6)	162.3	111.5	(31.3)
o/w Rice	23.3	0.4	(98.4)	155.1	100.5	(35.2)
Vegetables	26.2	25.1	(4.0)	202.9	195.1	(3.8)
Dairy products	19.6	23.6	20.5	180.0	190.3	5.7
Sugar and confectionery	18.9	19.1	0.8	169.6	171.9	1.4
Seafood	18.3	12.1	(33.9)	129.1	116.7	(9.6)
Spices	5.6	10.2	81.3	56.3	62.1	10.2
Oils and fats	2.8	4.1	43.1	27.4	31.2	14.2
Other food and beverages	17.5	16.5	(5.5)	129.1	140.6	8.9
Non-food consumer goods	201.3	276.9	37.5	1,499.7	1,990.6	32.7
Personal vehicles	62.2	137.0	120.4	432.4	949.7	119.7
Medical and pharmaceuticals	41.7	40.9	(1.8)	290.4	299.7	3.2
Printed materials and stationary	2.7	3.8	42.9	20.1	22.2	10.2
Clothing and accessories	22.4	24.4	9.2	221.2	189.5	(14.3)
Home appliances	18.6	18.1	(3.0)	146.9	138.1	(6.0)
Household and furniture items	16.9	13.1	(22.7)	98.6	97.2	(1.4)
Rubber products	7.6	9.0	19.1	52.3	54.3	3.7
Cosmetics and toiletries	5.5	4.7	(14.4)	48.9	40.7	(16.8)
Other non-food consumables	23.8	25.8	8.5	188.8	199.2	5.5
2. Intermediate goods	901.8	975.3	8.1	6,250.9	7,295.2	16.7
Fuel	215.9	276.6	28.1	1,840.4	2,370.2	28.8
o/w Crude oil	34.8	55.1	58.3	314.2	486.4	54.8
Refined petroleum	180.7	221.5	22.6	1,355.0	1,736.6	28.2
Diamonds, precious stones and metals	72.1	13.3	(81.6)	400.1	508.4	27.1
o/w Gold	62.4	0.1	(99.8)	337.4	437.9	29.8
Textiles and textile articles	236.9	249.6	5.3	1,543.9	1,610.1	4.3
Base metals	48.8	91.9	88.3	300.7	381.0	26.7
Chemical products	66.8	78.5	17.6	475.0	524.6	10.4
Plastic and articles thereof	48.8	58.8	20.5	351.4	411.8	17.2
Rubber and articles thereof	26.1	24.8	(4.9)	168.3	151.3	(10.1)
Vehicle and machinery parts	23.6	23.2	(2.0)	171.5	175.2	2.2
Wheat and maize	31.4	19.0	(39.5)	193.9	212.1	9.4
Food preparations	30.6	18.1	(40.9)	177.4	180.3	1.7
Fertiliser	10.6	17.6	66.1	49.7	138.7	179.1
Unmanufactured tobacco	4.7	12.8	173.7	31.7	44.5	40.3
Other	85.5	91.1	6.6	547.0	587.0	7.3
3. Investment goods	351.9	386.3	9.8	2,799.0	2,818.7	0.7
Machinery and equipment	195.0	216.4	11.0	1,514.0	1,480.3	(2.2)
Building material	111.3	119.6	7.5	900.9	878.8	(2.5)
Transport equipment	45.1	50.0	10.8	378.9	455.9	20.3
Other investment Goods	0.5	0.4	(31.9)	5.3	3.7	(29.6)
4. Unclassified imports	3.0	3.5	18.1	133.9	71.5	(46.6)
Total imports	1,591.1	1,754.5	10.3	11,740.1	13,195.5	12.4

(a) Provisional

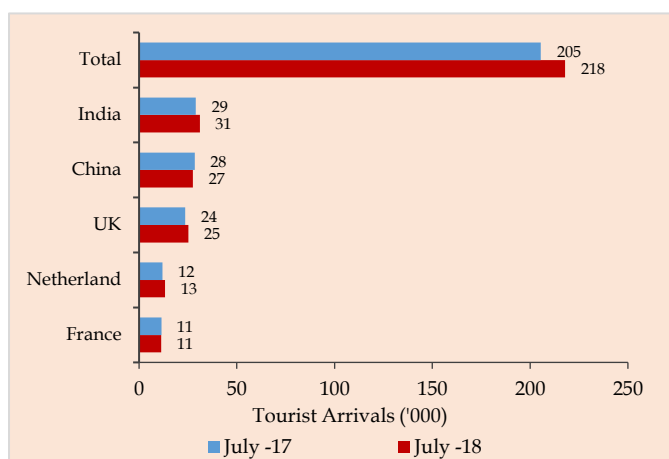
Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

Tourist arrivals increased moderately by 6.0 per cent with 217,829 tourist arrivals in July 2018 despite July being the traditional off season period for tourists during the year. Total tourist arrivals during the first seven months of 2018 were 1,382,476 with a growth of 13.7 per cent in comparison to the corresponding period of 2017. Earnings from tourism in July 2018 are estimated at US dollars 404 million, with cumulative earnings amounting to US dollars 2,564 million during the first seven months of 2018. Growth in tourist arrivals from India, United Kingdom, Netherlands, Australia and the United States contributed to the higher number of tourists during the period.

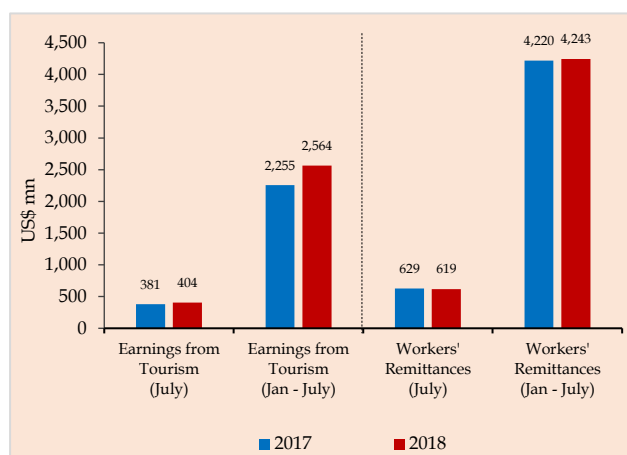
Meanwhile, workers' remittances recorded a moderate decline of 1.6 per cent, year on year, to US dollars 619 million in July 2018. Consequently, on a cumulative basis, up to July 2018 workers' remittances grew by 0.5 per cent (year-on-year) to US dollars 4,243 million.

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

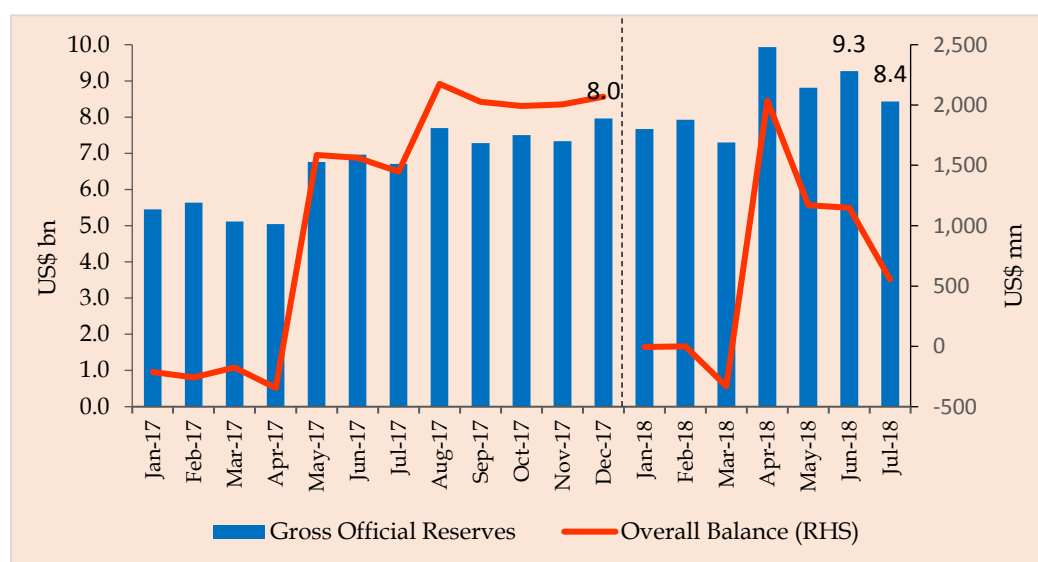
Foreign investments in the CSE, including both primary and secondary market foreign exchange flows, recorded a net outflow of US dollars 3 million during July 2018. Consequently, cumulative net inflows to the CSE in the first seven months of 2018 amounted to US dollars 50 million, with a net outflow of US dollars 16 million from the secondary market and an inflow of US dollars 66 million to the primary market during the period. Recent developments in the global financial markets, particularly

the strengthening of the US economy which prompted an increase in policy rates of the Federal Reserve Bank resulted in outflows of foreign investments from capital markets in emerging economies. This impact was also felt in Sri Lanka, leading to continuous foreign investment outflows from the government securities market particularly in the third quarter of 2018. Consequently, foreign investments in the government securities market recorded a net outflow of US dollars 53 million in July 2018, resulting in a cumulative net outflow of US dollars 229 million during the first seven months of 2018.

International Reserves

At end July 2018, gross official reserves were estimated at US dollars 8.4 billion, equivalent to 4.5 months of imports. Consequently, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, were estimated at US dollars 10.8 billion as at end July 2018, which was equivalent to 5.8 months of imports.

Figure 6: Gross Official Reserves and Overall Balance

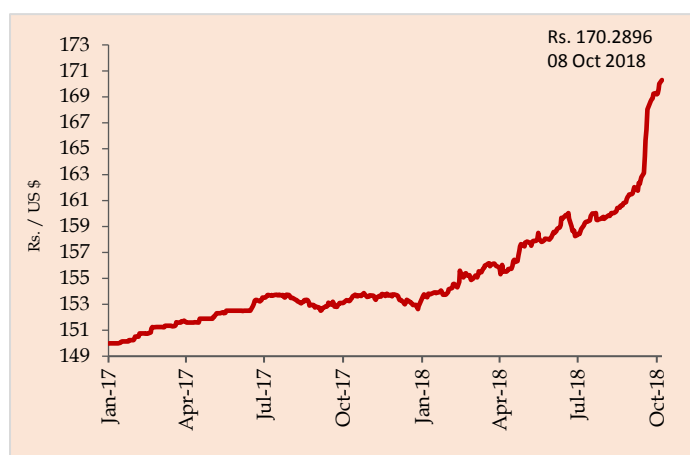


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee depreciated by 10.2 per cent against the US dollar in the year up to 08 October 2018. Furthermore, reflecting cross currency movements, the Sri Lankan rupee depreciated against other major currencies except for the Indian rupee during this period. The weakening of the Sri Lankan rupee against the US dollar mostly 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 08 Oct 2018 Appreciation (+) / Depreciation (-)
US dollar	-2.0%	-10.2%
Euro	-13.5%	-6.9%
Pound sterling	-10.5%	-8.0%
Japanese yen	-5.1%	-9.4%
Canadian dollar	-8.6%	-7.4%
Australian dollar	-9.0%	-0.8%
Indian rupee	-7.5%	+3.3%

Source: CBSL