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Press Release

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External Sector Performance – August 2018

Overview

The external sector performance remained subdued in August 2018. During the month, the deficit in the trade account narrowed marginally compared to a year earlier as the rise in export income outpaced the growth in import expenditure. Meanwhile, other inflows to the current account continued to be modest in August 2018 with a marginal increase in earnings from tourism and a decline in workers' remittances. On a net basis, the financial account of the Balance of Payments (BOP) recorded outflows during the month, due to withdrawals of foreign investments from both the government securities market and the Colombo Stock Exchange (CSE) and continued debt service payments. These developments, alongside the broad based strengthening of the US dollar, continued to exert pressure on the exchange rate to depreciate, thus necessitating intervention by the Central Bank in the domestic foreign exchange market to curtail undue excessive volatility in the exchange rate. As at end August 2018, gross official reserves amounted to US dollars 8.6 billion.

Table 1: Summary of External Sector Performance (a)

Category	Aug 2017 US\$ mn	Aug 2018 US\$ mn	Change (%)	Jan-Aug 2017 US\$ mn	Jan-Aug 2018 US\$ mn	Change (%)
Exports	1,001	1,037	3.7	7,413	7,842	5.8
Imports	1,857	1,887	1.6	13,597	15,083	10.9
Trade balance (net)	-856	-850		-6,184	-7,240	
Earnings from tourism	354 (b)	372 (c)	4.9	2,609 (b)	2,935 (c)	12.5
Workers' remittances	600 (d)	534	-10.9	4,820 (d)	4,777	-0.9
Inflows to the CSE (net) (e)	76	-6		328	44	
Inflows to the Government (gross)	752	198		4,410	4,142	
Treasury bills and bonds	140	75		1,074	657	
Long term loans	62	123		836	985	
Syndicated loans	550	-		1,000	-	
International Sovereign Bonds	-	-		1,500	2,500	
IMF-EFF receipts	-	-		167	252	
Foreign Direct Investment (f)				567	1,353	
Overall Balance				2,175	474	

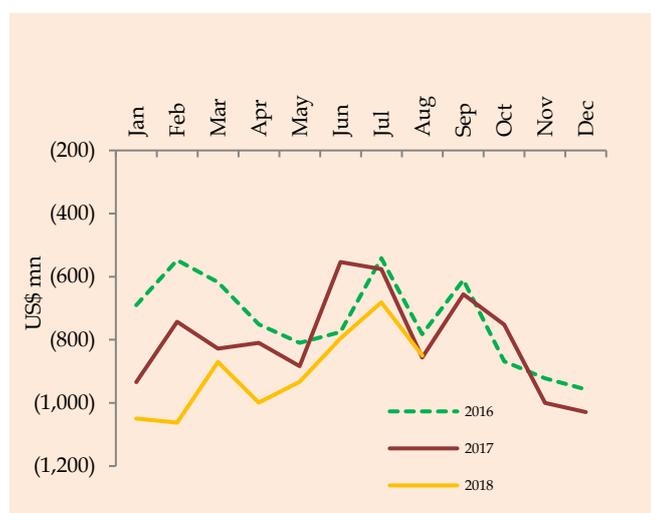
Sources: Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (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

In August 2018, export earnings increased at a faster pace than the growth in import expenditure narrowing the deficit in the trade account marginally, on a year-on-year basis. Nevertheless, on a cumulative basis, the trade deficit expanded during the first eight months of 2018 in comparison to the corresponding period of 2017.

Figure 1: Monthly Trade Balance

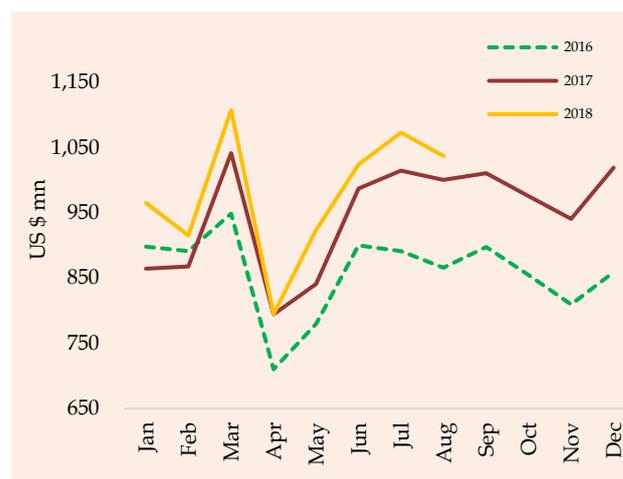


Sources: SLC, CBSL

Performance of Merchandise Exports

Surpassing US dollars 1 billion for the third consecutive month, earnings from merchandise exports increased by 3.7 per cent (year-on-year) to US dollars 1,037 million in August 2018. This growth was mainly driven by higher performance in industrial exports while agricultural and mineral exports declined. Under industrial exports, earnings from textiles and garments increased in August 2018 reflecting increased demand from the USA

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

and non-traditional markets such as India, Japan, Australia and Canada despite a decline in exports to the EU market. Further, export earnings from rubber products rose during the month due to the better performance in all sub categories, particularly rubber tyres. Earnings from petroleum products increased substantially in August 2018 due to higher export prices of bunker and aviation fuel in line with rising fuel prices in the international market, although a reduction was recorded in export volumes. Export earnings from food, beverages and tobacco also increased during the month due to the good performance in manufactured tobacco and vegetable, fruit and nuts preparations, particularly in coconut related products. In addition, earnings from machinery and mechanical appliances, base metals and articles and chemical products increased in August 2018 contributing towards the increase in industrial exports. However, export earnings from leather, travel goods and footwear, and gems, diamonds and jewellery declined during the month. Meanwhile, earnings from agricultural exports declined during the month owing to poor performance in almost all categories except unmanufactured tobacco and rubber. Reflecting the combined impact of lower average export prices and exported volumes of tea, export earnings from tea declined in August 2018. Export earnings from spices reduced during the month due to the poor performance in almost all sub categories except cinnamon. Further, earnings from coconut exports were lower due to the reduction in earnings

from coconut kernel products such as desiccated coconut and coconut oil. Leading markets for merchandise exports of Sri Lanka in August 2018 were the USA, the UK, India, Germany and Italy, which accounted for about 52 per cent of total exports.

Table 2: Earnings from Merchandise Exports (a)

Category	Aug 2017 (US\$ mn)	Aug 2018 (US\$ mn)	Change (%)	Jan - Aug 2017 (US\$ mn)	Jan - Aug 2018 (US\$ mn)	Change (%)
1. Industrial exports	740.1	808.0	9.2	5,562.5	6,085.3	9.4
Food, beverages and tobacco	34.8	40.1	15.4	259.1	311.1	20.1
Animal fodder	4.8	7.6	56.9	50.0	73.6	47.2
Textiles and garments	433.2	467.1	7.8	3,283.4	3,451.7	5.1
o/w Garments	402.3	436.2	8.4	3,088.1	3,222.2	4.3
Textiles	19.8	22.8	15.2	137.9	166.0	20.4
Other made up textile articles	11.1	8.1	(27.4)	57.4	63.5	10.5
Rubber products	71.0	80.5	13.4	538.1	584.4	8.6
Gems, diamonds and jewellery	25.6	24.5	(4.4)	166.9	195.3	17.0
Machinery and mechanical appliances	32.7	37.4	14.5	242.1	295.7	22.1
Transport equipment	6.4	8.7	35.2	138.1	91.1	(34.0)
Petroleum products	40.1	47.0	17.3	252.7	387.9	53.5
Chemical products	12.7	16.0	25.5	96.6	114.7	18.8
Wood and paper products	11.4	11.0	(2.8)	90.3	92.5	2.4
Printing industry products	4.0	4.9	21.1	28.0	19.3	(31.2)
Leather, travel goods and footwear	16.5	11.2	(31.9)	107.0	101.9	(4.7)
Plastics and articles thereof	5.8	6.5	11.5	47.2	50.7	7.4
Base metals and articles	11.4	16.2	43.1	72.3	108.0	49.4
Ceramic products	2.8	3.5	23.5	22.1	20.8	(5.7)
Other	26.9	25.8	(4.0)	168.5	186.6	10.7
2. Agricultural exports	255.4	225.4	(11.7)	1,815.0	1,723.4	(5.0)
Tea	131.3	116.1	(11.6)	1,002.7	970.2	(3.2)
Rubber	2.6	2.7	3.2	28.7	23.0	(19.7)
Coconut	33.8	31.1	(7.9)	240.1	209.4	(12.8)
Spices	50.2	41.6	(17.2)	248.7	225.6	(9.3)
Vegetables	2.5	2.2	(12.1)	19.5	18.3	(6.2)
Unmanufactured tobacco	3.5	3.8	8.7	23.5	23.6	0.5
Minor agricultural products	13.4	10.0	(25.5)	96.6	84.0	(13.0)
Seafood	18.0	17.9	(0.2)	155.4	169.4	9.0
3. Mineral and other	5.2	3.9	(24.2)	35.8	33.7	(6.0)
Total exports	1,000.6	1,037.4	3.7	7,413.4	7,842.4	5.8

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

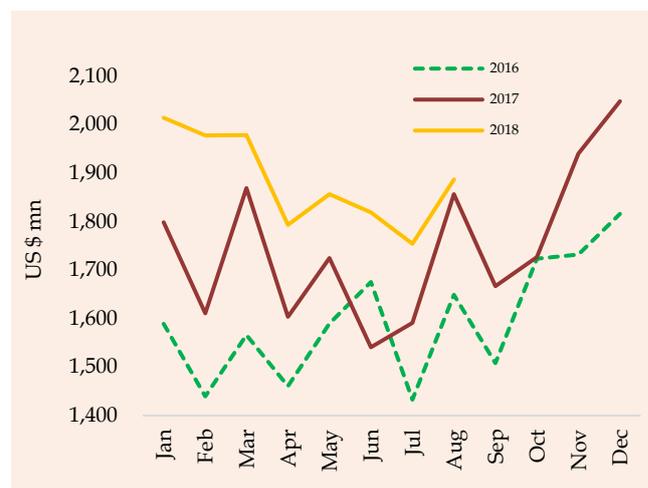
(a) Provisional

Performance of Merchandise Imports

Expenditure on merchandise imports increased by 1.6 per cent (year-on-year) to US dollars 1,887 million in August 2018 mainly due to the high expenditure incurred on fuel and vehicle imports. Under intermediate goods, expenditure on fuel imports increased significantly during the month owing to higher import prices of crude oil and refined petroleum products despite a reduction

in import volumes. In addition, import expenditure on textiles and textile articles, chemical products, plastic and articles thereof and mineral products increased considerably. However, gold, base metals and wheat and maize declined during this period. Under consumer goods, expenditure on personal motor vehicle imports continued to increase on a year-on-year basis for the ninth consecutive month in August 2018 mainly due to higher imports of cars with less than 1,000 cylinder capacity (cc), hybrid and electric motor cars. However, considering the pressure on the BOP from increased imports, both the Central Bank and the Government took several measures aimed at curtailing high vehicle imports. Accordingly, taxes applicable on the importation of cars with less than 1,000 cylinder capacity (cc), hybrid and electric motor vehicles were revised upward with effect from 01 August 2018, and a 100 per cent margin deposit requirement imposed against letters of credit (LCs) on non-commercial vehicle imports with effect from 19 September 2018. Further, the margin deposit requirement against LCs on non-commercial vehicle imports was increased to 200 per cent while the LTV ratio for credit facilities granted in respect of hybrid motor vehicles was reduced to 50 per cent from 70 per cent with effect from 01 October 2018. Meanwhile, the Ministry of Finance and Mass Media announced the suspension of concessionary vehicle permits for a limited period. With these policy measures, expenditure on vehicle imports is expected to decline in the coming months. Further, consumer goods such as dairy products, medical and pharmaceuticals and telecommunication devices increased during the month while expenditure on rice imports reduced owing to increased domestic supply. However,

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

recently introduced measures such as the 100 per cent minimum cash margin deposit requirement against LCs/documents against acceptance (DA) terms on selected non-essential consumer goods imports and the prohibition on releasing foreign exchange by authorised dealers for making payments for non-essential goods by converting Sri Lankan rupees are expected to reduce the pressure on the BOP, which was coming through the increased expenditure on non-essential consumer goods imports. However, import expenditure on investment goods declined in August 2018 due to lower expenses in almost all sub categories. China, India, Japan, Singapore and UAE were the main import origins in August 2018 accounting for about 55 per cent of total imports.

Table 3: Expenditure on Merchandise Imports (a)

Category	Aug 2017 (US\$ mn)	Aug 2018 (US\$ mn)	Change (%)	Jan - Aug 2017 (US\$ mn)	Jan - Aug 2018 (US\$ mn)	Change (%)
1. Consumer goods	393.8	431.2	9.5	2,950.1	3,441.3	16.7
Food and beverages	147.9	128.6	(13.0)	1,204.5	1,148.1	(4.7)
Cereals and milling industry products	22.7	1.7	(92.6)	185.0	113.2	(38.8)
o/w Rice	21.3	0.4	(98.2)	176.4	100.9	(42.8)
Dairy products	22.9	40.9	78.3	202.9	231.2	13.9
Vegetables	32.7	25.3	(22.8)	235.7	220.4	(6.5)
Seafood	18.7	19.3	3.5	147.7	136.0	(7.9)
Spices	8.0	11.0	37.6	64.3	73.1	13.7
Sugar and confectionery	19.1	8.9	(53.7)	188.8	180.8	(4.2)
Other food and beverages	23.7	21.5	(9.1)	180.1	193.4	7.4
Non-food consumer goods	245.9	302.6	23.1	1,745.6	2,293.2	31.4
Personal vehicles	72.6	142.7	96.5	505.0	1,092.4	116.3
Medical and pharmaceuticals	44.5	49.5	11.2	334.9	349.2	4.3
Clothing and accessories	41.1	25.1	(38.9)	262.3	214.6	(18.2)
Telecommunication devices	23.1	24.6	6.4	175.0	184.7	5.5
Home appliances	21.3	20.6	(3.2)	168.2	158.7	(5.7)
Household and furniture items	20.7	14.9	(28.0)	119.3	112.1	(6.0)
Other non-food consumables	22.5	25.1	11.6	180.8	181.4	0.4
2. Intermediate goods	1,020.8	1,061.6	4.0	7,271.7	8,356.8	14.9
Fuel	312.5	398.6	27.6	2,152.8	2,768.8	28.6
o/w Crude oil	76.9	108.9	41.6	391.1	595.3	52.2
Refined petroleum	232.7	289.6	24.4	1,587.7	2,026.2	27.6
Diamonds, precious stones and metals	74.4	9.9	(86.7)	474.6	518.4	9.2
o/w Gold	65.4	0.1	(99.9)	402.7	438.0	8.8
Textiles and textile articles	237.4	247.8	4.4	1,781.3	1,857.9	4.3
Chemical products	74.9	77.4	3.2	549.9	601.9	9.5
Plastic and articles thereof	56.6	59.9	5.9	407.9	471.7	15.6
Paper and paperboard and articles	44.6	47.9	7.4	311.6	345.7	11.0
Base metals	52.3	34.6	(33.8)	353.0	415.6	17.7
Mineral products	12.9	31.6	145.2	121.6	129.7	6.6
Food preparations	23.3	27.5	18.4	200.7	207.9	3.6
Wheat and maize	31.3	23.9	(23.6)	225.2	235.9	4.8
Fertiliser	14.3	14.5	1.5	64.0	153.3	139.4
Other	86.4	87.9	1.7	629.1	650.0	3.3
3. Investment goods	438.7	393.5	(10.3)	3,237.7	3,212.2	(0.8)
Machinery and equipment	224.3	222.7	(0.7)	1,738.3	1,703.0	(2.0)
Building material	153.9	134.2	(12.8)	1,054.8	1,013.0	(4.0)
Transport equipment	59.7	36.0	(39.7)	438.6	492.0	12.2
Other investment Goods	0.8	0.5	(29.5)	6.0	4.3	(29.6)
4. Unclassified imports	3.6	0.8	(77.0)	137.5	72.3	(47.4)
Total imports	1,856.9	1,887.1	1.6	13,597.0	15,082.7	10.9

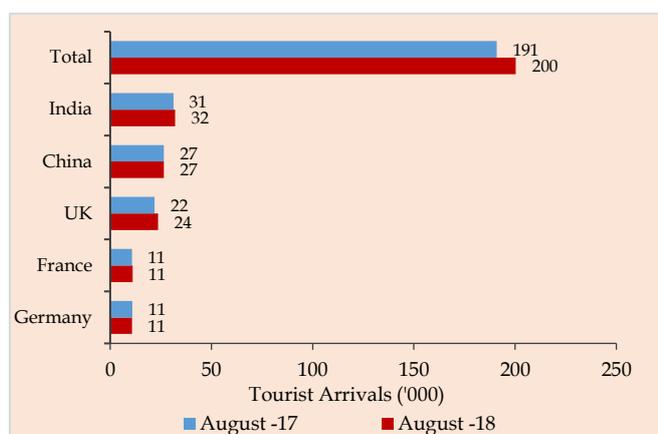
Sources: SLC, CPC, Lanka IOC PLC, CBSL

(a) Provisional

Other Major Inflows to the Current Account

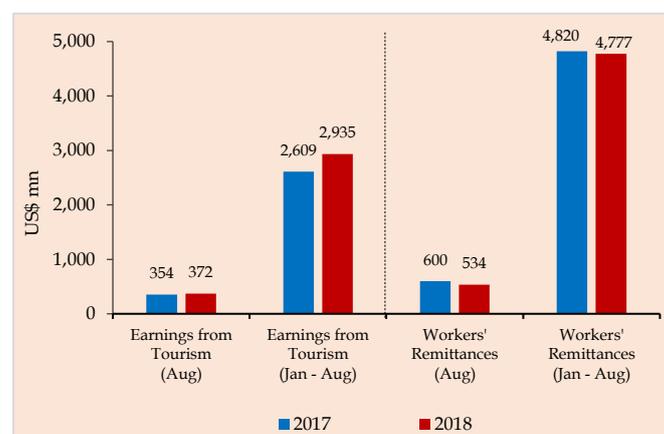
A moderate increase in tourist arrivals was recorded in August 2018 in comparison to the same period in 2017 with a growth of 4.9 per cent, on a year-on-year basis. Consequently, total tourist arrivals in the first eight months amounted to 1,582,835 with a cumulative year-on-year growth of 12.5 per cent. This reflected tourist earnings of US dollars 2,935 million during the first eight months of the year. A sizeable growth in tourist arrivals from the United Kingdom contributed to the growth in tourism in August while a notable decline in tourists from Middle East was also witnessed during the month. Meanwhile, workers' remittances also recorded a notable decline of 10.9 per cent, year-on-year, in August 2018 leading to a marginal reduction in workers' remittances during the first eight months of the year 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

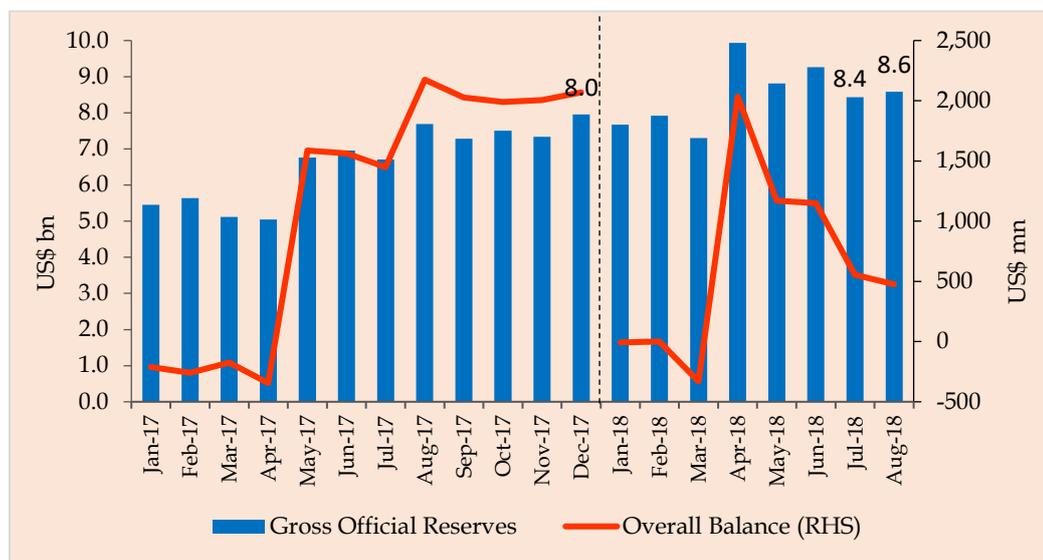
Both foreign investments to the CSE and the government securities market recorded a net outflow in August 2018. Foreign investments in the CSE, including both primary and secondary market flows, recorded a net outflow of US dollars 6 million. Consequently, cumulative net inflows to the CSE in the first eight months amounted to US dollars 44 million, with a net outflow of US dollars 26 million from the secondary

market and an inflow of US dollars 70 million to the primary market during the period. The government securities market continued to experience a withdrawal of foreign investments in the month of August, resulting in an outflow of US dollars 86 million, on a net basis. Cumulatively, net outflows from the government securities market amounted to US dollars 315 million for the first eight months of 2018.

International Reserves

As at end August 2018, gross official reserves were estimated at US dollars 8.6 billion, equivalent to 4.6 months of imports. As a result, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 11.0 billion as at end August 2018, equivalent to 5.9 months of imports.

Figure 6: Gross Official Reserves and Overall Balance

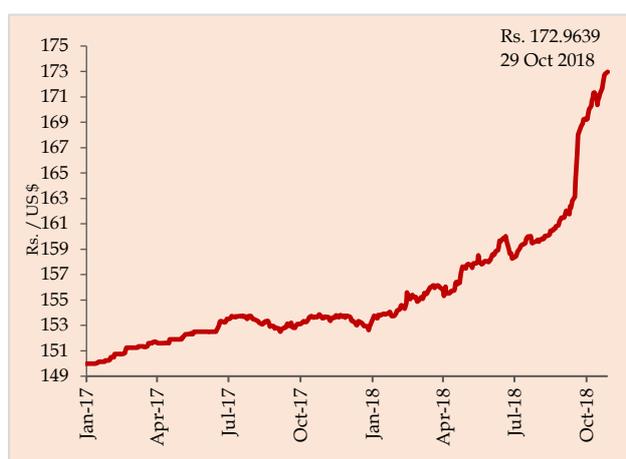


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee depreciated by 11.6 per cent against the US dollar during the year up to 29 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, outflows of government securities and demand for import expenditure in the foreign exchange market.

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 29 Oct 2018 Appreciation (+)/ Depreciation (-)
US dollar	-2.0%	-11.6%
Euro	-13.5%	-7.4%
Pound sterling	-10.5%	-7.4%
Japanese yen	-5.1%	-12.4%
Canadian dollar	-8.6%	-7.9%
Australian dollar	-9.0%	-2.8%
Indian rupee	-7.5%	+1.3%

Source: CBSL

