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Press Release

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External Sector Performance – September 2018

Overview

Sri Lanka's external sector came under pressure in September 2018. The widening deficit in the trade account and the strengthening of the US dollar, which resulted in outflows of portfolio investments, adversely impacted the balance of payments during the month. Despite earnings from exports which surpassed US dollars 1 billion for the fourth consecutive month, higher growth in import expenditure outpaced the increase in export earnings. In the financial account, foreign investments in the government securities market recorded outflows responding to the firming up of global financial markets. Meanwhile, the Colombo Stock Exchange (CSE) also witnessed some outflows of foreign investments during September. Consequently, the Sri Lankan rupee which depreciated against the US dollar by 5.3 per cent in the first eight months of the year, showed a further depreciation of 4.6 per cent in September, reflecting the pressure on the domestic foreign exchange market. These developments necessitated intervention by the Central Bank to curtail excessive volatility in the exchange rate. The country's gross official reserves stood at US dollars 7.2 billion at end September 2018 which was equivalent to 3.8 months of imports.

Table 1: Summary of External Sector Performance (a)

| Category | Sep 2017 US\$ mn | Sep 2018 US\$ mn | Change (%) | Jan-Sep 2017 US\$ mn | Jan-Sep 2018 US\$ mn | Change (%) |
|-----------------------------------|---------------------|---------------------|------------|-------------------------|-------------------------|------------|
| Exports | 1,011 | 1,055 | 4.4 | 8,424 | 8,898 | 5.6 |
| Imports | 1,667 | 1,768 | 6.1 | 15,264 | 16,851 | 10.4 |
| Trade balance (net) | -656 | -713 | | -6,839 | -7,953 | |
| Earnings from tourism | 269 (b) | 276 (c) | 2.8 | 2,878 (b) | 3,212 (c) | 11.6 |
| Workers' remittances | 538 (d) | 500 | -7.1 | 5,358 (d) | 5,277 | -1.5 |
| Inflows to the CSE (net) (e) | -62 | -7 | | 266 | 37 | |
| Inflows to the Government (gross) | 305 | 159 | | 4,715 | 4,305 | |
| Treasury bills and bonds | 187 | 25 | | 1,261 | 681 | |
| Long term loans | 118 | 135 | | 954 | 1,123 | |
| Syndicated loans | - | - | | 1,000 | - | |
| International Sovereign Bonds | - | - | | 1,500 | 2,500 | |
| IMF-EFF receipts | - | - | | 167 | 252 | |
| Foreign Direct Investment (f) | | | | 567 | 1,353 | |
| Overall Balance | | | | 2,027 | -650 | |

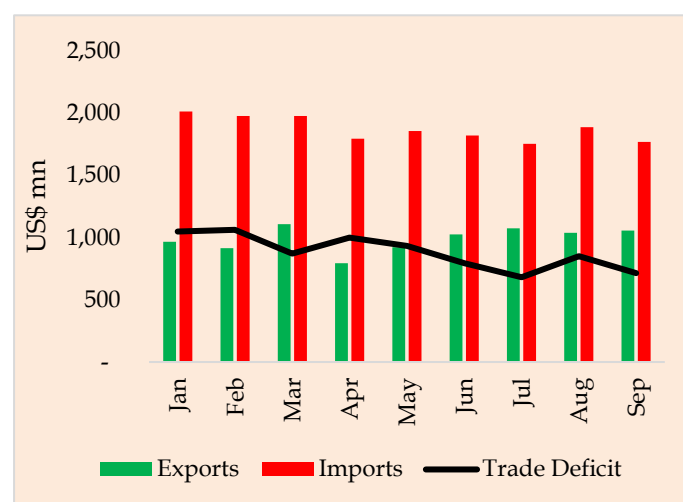
Sources: Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (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 expanded at a modest pace in September 2018 in comparison to September 2017 as import expenditure grew more than export earnings. On a cumulative basis, the trade deficit remained widened during the first nine months of 2018.

Figure 1: Monthly Merchandise Trade Performance - 2018



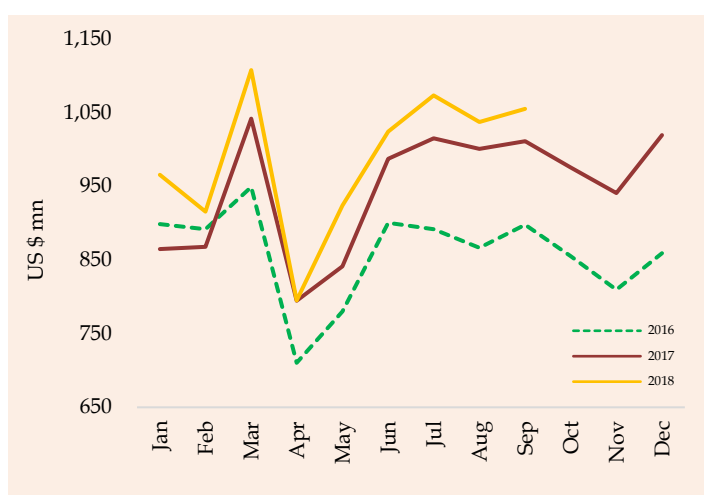
Sources: SLC, CBSL

Performance of Merchandise Exports

Earnings from merchandise exports surpassed US dollars 1 billion for the fourth consecutive month in September 2018. Earnings from industrial exports, which account for 77 per cent of the total export earnings, grew by 9.4 per cent during September 2018, while earnings from agricultural exports fell by 10.8 percent, reflecting the poor performance

in almost all categories except seafood. Under industrial exports, earning from textiles and garments increased in September 2018 reflecting considerable high demand for garments from the USA and non-traditional markets such as Canada, India and Japan although a slight reduction was recorded in exports to the EU market. Earnings from petroleum products increased substantially in September 2018 due to higher export prices of bunker and aviation fuel, despite low export volumes. Export earnings from leather, travel goods and footwear, and base metals and articles increased in September 2018 contributing towards the increase in industrial exports. However, export earnings from rubber products declined in September 2018 due to the subdued performance in all sub categories. In addition, export earnings from machinery and mechanical appliances, gems, diamonds and jewellery, and food, beverages and tobacco declined during the month. Under agricultural exports, earnings from tea declined in September 2018 reflecting lower average export prices despite a marginal increase in export volumes. 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 declined due to the reduction in coconut kernel products such as desiccated coconut and coconut oil while coconut non-kernel products showed a growth. However, earnings from seafood exports increased during the month due to higher exports to the EU market. Leading markets for merchandise exports of Sri Lanka in September 2018 were the USA, the UK, India, Italy and Germany, which accounted for about 52 per cent of total exports.

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

Table 2: Earnings from Merchandise Exports (a)

| Category | Sep 2017 (US\$ mn) | Sep 2018 (US\$ mn) | Change (%) | Jan - Sep 2017 (US\$ mn) | Jan - Sep 2018 (US\$ mn) | Change (%) |
|-------------------------------------|-----------------------|-----------------------|---------------|-----------------------------|-----------------------------|--------------|
| 1. Industrial exports | 744.5 | 814.4 | 9.4 | 6,307.0 | 6,899.6 | 9.4 |
| Food, beverages and tobacco | 37.2 | 36.0 | (3.2) | 296.3 | 347.2 | 17.2 |
| Animal fodder | 6.4 | 9.2 | 44.2 | 56.4 | 82.8 | 46.8 |
| Textiles and garments | 431.5 | 476.2 | 10.4 | 3,715.0 | 3,927.9 | 5.7 |
| o/w Garments | 407.3 | 444.7 | 9.2 | 3,495.4 | 3,666.9 | 4.9 |
| Textiles | 17.2 | 24.4 | 41.7 | 155.1 | 190.4 | 22.7 |
| Other made up textile articles | 7.1 | 7.2 | 1.9 | 64.5 | 70.7 | 9.6 |
| Rubber products | 76.5 | 71.8 | (6.1) | 614.6 | 656.2 | 6.8 |
| Gems, diamonds and jewellery | 21.5 | 19.2 | (11.0) | 188.5 | 214.5 | 13.8 |
| Machinery and mechanical appliances | 35.3 | 32.6 | (7.5) | 277.4 | 328.4 | 18.4 |
| Transport equipment | 6.6 | 7.2 | 8.5 | 144.8 | 98.3 | (32.1) |
| Petroleum products | 40.2 | 65.9 | 64.1 | 292.8 | 453.8 | 55.0 |
| Chemical products | 11.6 | 13.3 | 14.4 | 108.2 | 128.0 | 18.3 |
| Wood and paper products | 12.7 | 11.8 | (7.0) | 103.0 | 104.3 | 1.3 |
| Printing industry products | 6.2 | 4.1 | (34.5) | 34.2 | 23.3 | (31.8) |
| Leather, travel goods and footwear | 13.4 | 17.1 | 27.5 | 120.4 | 119.0 | (1.1) |
| Plastics and articles thereof | 6.3 | 6.6 | 5.3 | 53.4 | 57.3 | 7.2 |
| Base metals and articles | 13.1 | 15.5 | 18.7 | 85.4 | 123.5 | 44.7 |
| Ceramic products | 3.1 | 3.2 | 4.5 | 25.2 | 24.0 | (4.4) |
| Other | 22.9 | 24.5 | 7.3 | 191.4 | 211.1 | 10.3 |
| 2. Agricultural exports | 262.7 | 234.3 | (10.8) | 2,077.8 | 1,957.7 | (5.8) |
| Tea | 136.9 | 122.5 | (10.5) | 1,139.6 | 1,092.8 | (4.1) |
| Rubber | 2.9 | 2.1 | (26.6) | 31.6 | 25.1 | (20.3) |
| Coconut | 33.0 | 28.7 | (13.0) | 273.1 | 238.1 | (12.8) |
| Spices | 48.9 | 43.7 | (10.5) | 297.5 | 269.3 | (9.5) |
| Vegetables | 2.7 | 2.6 | (1.3) | 22.1 | 20.9 | (5.6) |
| Unmanufactured tobacco | 3.2 | 3.1 | (4.2) | 26.7 | 26.7 | (0.0) |
| Minor agricultural products | 14.3 | 9.7 | (32.1) | 110.9 | 93.8 | (15.5) |
| Seafood | 20.8 | 21.7 | 4.3 | 176.2 | 191.0 | 8.4 |
| 3. Mineral and other | 3.8 | 6.6 | 72.8 | 39.6 | 40.3 | 1.6 |
| Total exports | 1,011.0 | 1,055.2 | 4.4 | 8,424.4 | 8,897.6 | 5.6 |

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

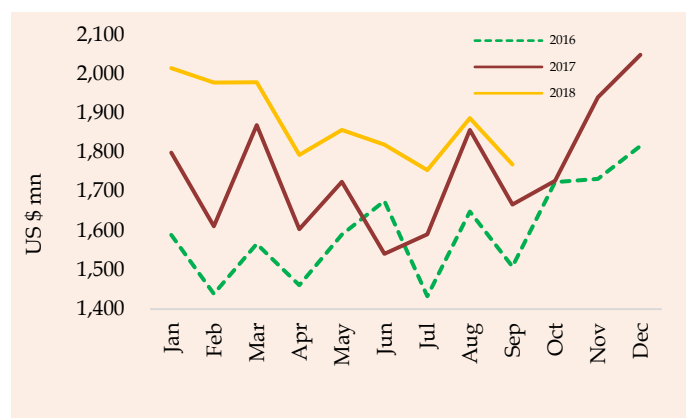
(a) Provisional

Performance of Merchandise Imports

Expenditure on merchandise imports increased by 6.1 per cent (year-on-year) to US dollars 1,768 million in September 2018 mainly due to the high expenditure incurred on fuel and personal vehicle imports. Expenditure on fuel imports, categorised under intermediate goods, increased significantly during the month

reflecting the combined effect of higher import prices and volumes of crude oil and refined petroleum products. In addition, import expenditure on textiles and textile articles, fertiliser and chemical products increased considerably. However, continuing the trend observed since the imposition of customs duty on gold in April 2018, expenditure on gold imports declined significantly in September 2018. In addition, mineral products led by cement clinkers, base metals led by iron and steel as well as wheat and maize imports declined during this period. Under consumer goods, personal motor vehicle imports continued to increase in September 2018 on a year-on-year basis mainly due to higher imports of motor cars with less than 1,500 cylinder capacity (cc) partly reflecting the impact of increase in orders placed for importation of such vehicles prior to the implementation of the new tariff structure with effect from 01 August 2018. Import expenditure on hybrid and electric motor vehicles also increased during the period. However, expenditure on personal vehicle imports is expected to decline in the coming months with policy measures taken by the Government and the Central Bank to curtail vehicle imports. Further, imports of consumer goods such as spices, medical and pharmaceuticals and sugar and confectionery increased during the month. In contrast, expenditure on rice imports declined owing to increased domestic supply while expenditure on vegetables and dairy products also declined. However, import expenditure on investment goods declined in September 2018 mainly due to lower outlays on road vehicles such as tankers, bowsers and buses. In addition, expenditure on machinery and equipment imports declined mainly driven by electrical machinery and equipment and engineering equipment while expenditure on building materials increased led by iron and steel and cement. India, China, UAE, Japan and Malaysia were the main import origins in September 2018 accounting for about 63 per cent of total imports.

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

Table 3: Expenditure on Merchandise Imports (a)

| Category | Sep 2017 (US\$ mn) | Sep 2018 (US\$ mn) | Change (%) | Jan - Sep 2017 (US\$ mn) | Jan - Sep 2018 (US\$ mn) | Change (%) |
|---|-----------------------|-----------------------|---------------|-----------------------------|-----------------------------|---------------|
| 1. Consumer goods | 328.9 | 379.3 | 15.3 | 3,279.0 | 3,820.6 | 16.5 |
| Food and beverages | 131.2 | 91.0 | (30.6) | 1,335.7 | 1,239.2 | (7.2) |
| Cereals and milling industry products | 23.1 | 2.3 | (90.1) | 208.0 | 115.5 | (44.5) |
| o/w Rice | 22.0 | 0.7 | (96.9) | 198.4 | 101.6 | (48.8) |
| Sugar and confectionery | 10.7 | 15.9 | 47.6 | 199.5 | 196.7 | (1.4) |
| Vegetables | 28.0 | 15.2 | (45.8) | 263.6 | 235.5 | (10.6) |
| Seafood | 18.3 | 14.0 | (23.8) | 166.1 | 150.0 | (9.7) |
| Dairy products | 23.5 | 12.9 | (45.0) | 226.4 | 244.1 | 7.8 |
| Spices | 5.9 | 11.2 | 89.2 | 70.3 | 84.3 | 20.0 |
| Other food and beverages | 21.7 | 19.6 | (9.3) | 201.8 | 213.0 | 5.6 |
| Non-food consumer goods | 197.7 | 288.2 | 45.8 | 1,943.3 | 2,581.4 | 32.8 |
| Personal vehicles | 55.4 | 138.2 | 149.5 | 560.4 | 1,230.6 | 119.6 |
| Medical and pharmaceuticals | 39.6 | 44.3 | 11.7 | 374.5 | 393.5 | 5.1 |
| Clothing and accessories | 22.2 | 22.7 | 2.5 | 284.5 | 237.4 | (16.6) |
| Home appliances | 21.6 | 17.5 | (18.9) | 189.8 | 176.2 | (7.2) |
| Household and furniture items | 14.1 | 16.9 | 20.1 | 133.4 | 129.0 | (3.3) |
| Printed materials and stationary | 4.8 | 3.5 | (27.0) | 28.6 | 29.5 | 3.2 |
| Other non-food consumables | 40.1 | 45.1 | 12.7 | 372.1 | 385.2 | 3.5 |
| 2. Intermediate goods | 949.4 | 1,056.0 | 11.2 | 8,221.2 | 9,412.8 | 14.5 |
| Fuel | 298.5 | 396.3 | 32.8 | 2,451.3 | 3,165.1 | 29.1 |
| o/w Crude oil | 79.9 | 118.7 | 48.7 | 471.0 | 714.0 | 51.6 |
| Refined petroleum | 218.4 | 277.5 | 27.1 | 1,806.1 | 2,303.7 | 27.6 |
| Diamonds, precious stones and metals | 40.2 | 11.3 | (72.0) | 514.8 | 529.6 | 2.9 |
| o/w Gold | 32.0 | 0.1 | (99.7) | 434.7 | 438.1 | 0.8 |
| Textiles and textile articles | 217.3 | 233.7 | 7.6 | 1,998.5 | 2,091.6 | 4.7 |
| Chemical products | 63.4 | 69.1 | 9.0 | 613.3 | 671.0 | 9.4 |
| Plastic and articles thereof | 49.7 | 50.0 | 0.6 | 457.7 | 521.8 | 14.0 |
| Paper and paperboard and articles thereof | 42.0 | 49.0 | 16.7 | 353.6 | 394.8 | 11.6 |
| Base metals | 66.2 | 57.5 | (13.1) | 419.2 | 473.1 | 12.9 |
| Mineral products | 23.6 | 7.6 | (67.7) | 145.2 | 137.3 | (5.4) |
| Food preparations | 22.3 | 26.1 | 17.1 | 223.0 | 234.0 | 5.0 |
| Wheat and maize | 39.3 | 36.7 | (6.7) | 264.5 | 272.6 | 3.1 |
| Fertiliser | 7.1 | 34.5 | 383.6 | 71.2 | 187.8 | 163.8 |
| Other | 79.8 | 84.1 | 5.3 | 708.9 | 734.0 | 3.5 |
| 3. Investment goods | 385.9 | 332.4 | (13.9) | 3,623.6 | 3,544.6 | (2.2) |
| Machinery and equipment | 203.5 | 175.7 | (13.7) | 1,941.8 | 1,878.7 | (3.3) |
| Building material | 122.9 | 127.6 | 3.8 | 1,177.7 | 1,140.7 | (3.1) |
| Transport equipment | 59.2 | 28.8 | (51.3) | 497.8 | 520.8 | 4.6 |
| Other investment Goods | 0.3 | 0.3 | 16.6 | 6.3 | 4.6 | (27.7) |
| 4. Unclassified imports | 2.4 | 0.7 | (71.7) | 139.9 | 73.0 | (47.8) |
| Total imports | 1,666.7 | 1,768.4 | 6.1 | 15,263.7 | 16,851.1 | 10.4 |

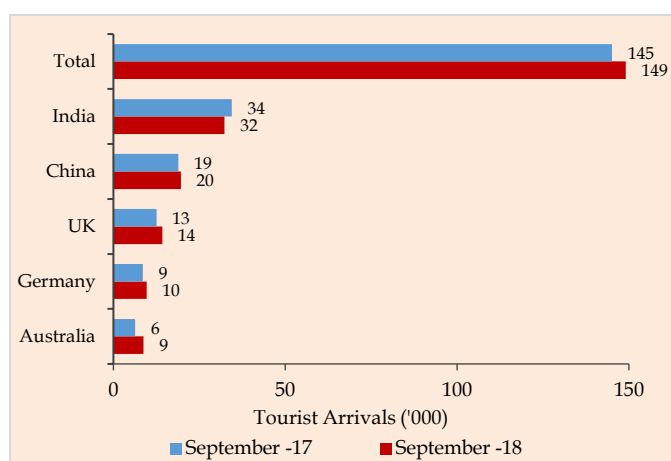
Sources: SLC, CPC, Lanka IOC PLC, CBSL

(a) Provisional

Other Major Inflows to the Current Account

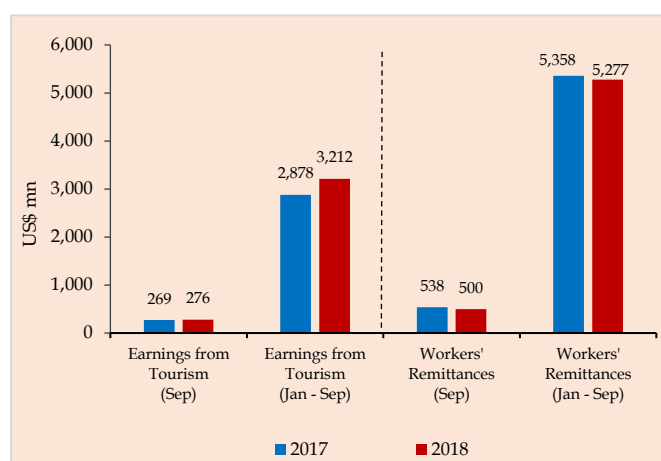
Tourist arrivals recorded a marginal growth of 2.8 per cent in September 2018 as a result of a decline in the number of tourists arriving mainly from India, Maldives and France in comparison to September 2017. Tourist arrivals during the first nine months of 2018 totalled 1,731,922 which was a 11.6 per cent increase over the corresponding period of 2017. Earnings from tourism in September 2018 are estimated at US dollars 276 million, with cumulative earnings amounting to US dollars 3,212 million during the first nine months of 2018. Meanwhile, workers' remittances declined by 7.1 per cent, year-on-year, to US dollars 500 million in September 2018. Consequently, workers' remittances declined by 1.5 per cent to US dollars 5,277 million during the first nine 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

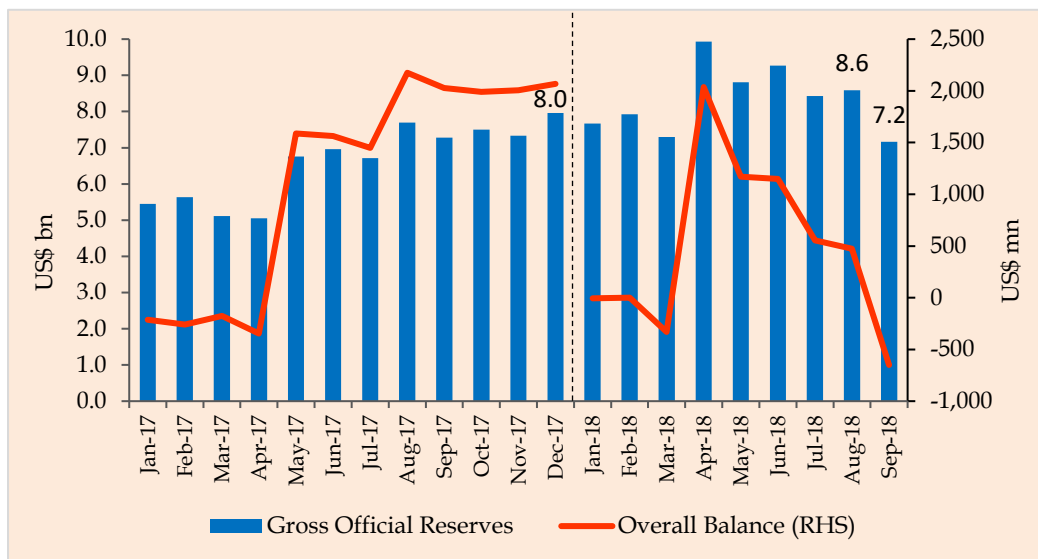
Reflecting the ongoing portfolio rebalancing strategy of foreign investors, both the government securities market and the CSE witnessed foreign investment outflows in September 2018. The government securities market continued to experience a withdrawal of foreign investments recording a net outflow of US dollars 152 million in the month of September, thus raising the net cumulative outflow to US dollars 468 million by the end of the first nine months of 2018. Meanwhile, foreign investments in the CSE, including both secondary and primary market foreign exchange flows, recorded a net outflow of US dollars 7 million during the month of September 2018. On

a cumulative basis, the CSE recorded a net inflow of US dollars 37 million in the first nine months of 2018 which comprised an inflow of US dollars 73 million to the primary market and a net outflow of US dollars 36 million from the secondary market. Further, long term loans to the government recorded a net outflow of US dollars 63 million during September 2018 as loan repayments exceeded loan inflows.

International Reserves

As at end September 2018, gross official reserves were estimated at US dollars 7.2 billion, equivalent to 3.8 months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 9.6 billion as at end September 2018, equivalent to 5.1 months of imports.

Figure 6: Gross Official Reserves and Overall Balance

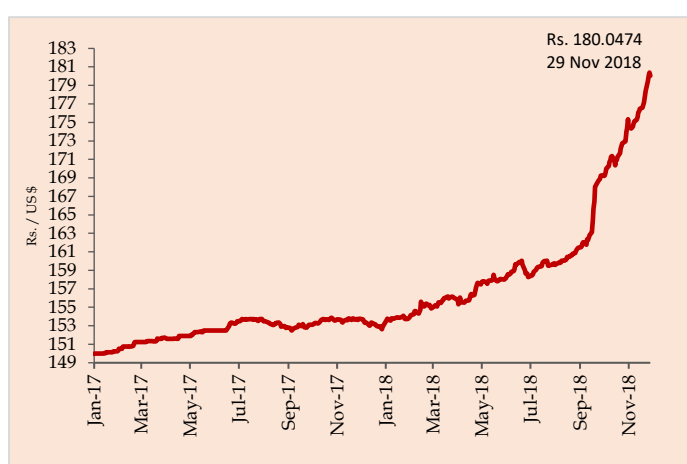


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee depreciated by 15.1 per cent against the US dollar during the year up to 29 November 2018. Furthermore, reflecting cross currency movements, the rupee also depreciated against other major currencies 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 from the government securities market 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 | 2018 (up to 29 November) Depreciation (-) |
|-------------------|--------|---|
| US dollar | -2.0% | -15.1% |
| Euro | -13.5% | -10.9% |
| Pound sterling | -10.5% | -11.0% |
| Japanese yen | -5.1% | -14.5% |
| Canadian dollar | -8.6% | -10.3% |
| Australian dollar | -9.0% | -9.3% |
| Indian rupee | -7.5% | -6.4% |

Source: CBSL