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Press Release

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External Sector Performance – October 2018

Overview

Sri Lanka's external sector continued to be under pressure in October 2018. The trade deficit widened significantly in October due to a higher growth in import expenditure alongside a marginal growth in exports. However, it is expected that the trend of increasing imports will reduce in the coming months with the lagged impact of recently introduced restrictions on certain import categories. Meanwhile, workers' remittances recorded a healthy increase in October, while earnings from tourism registered a marginal growth. The financial account witnessed outflows of foreign investments from the government securities market and the Colombo Stock Exchange (CSE). Foreign currency outflows together with import expenditure exerted pressure on the domestic foreign exchange market. Consequently, the Sri Lanka rupee depreciated by 12.3 per cent in the first ten months of the year. Gross official reserves rose to US dollars 7.9 billion as at end October from US dollars 7.2 billion at end September 2018, supported by the receipt of the foreign currency term financing facility of US dollars 1 billion.

Table 1: Summary of External Sector Performance (a)

Category	Oct 2017 US\$ mn	Oct 2018 US\$ mn	Change (%)	Jan-Oct 2017 US\$ mn	Jan-Oct 2018 US\$ mn	Change (%)
Exports	976	979	0.4	9,400	9,877	5.1
Imports	1,727	1,882	9.0	16,991	18,734	10.3
Trade balance (net)	-752	-903		-7,591	-8,857	
Earnings from tourism	283 (b)	284(c)	0.5	3,161 (b)	3,496 (c)	10.6
Workers' remittances	546 (d)	599	9.7	5,904(d)	5,876	-0.5
Inflows to the CSE (net) (e)	13	-36		279	0.9	
Inflows to the Government (gross) (f)	260	1,152		4,857	5,321	
Treasury bills and bonds	142	17		1,403	698	
Long term loans (f)	118	135		954	1,123	
Syndicated loans	-	1,000		1,000	1,000	
International Sovereign Bonds	-	-		1,500	2,500	
IMF-EFF receipts	-	-		167	252	
Foreign Direct Investment (g)				693	1,801	
Overall Balance				1,991	-157	

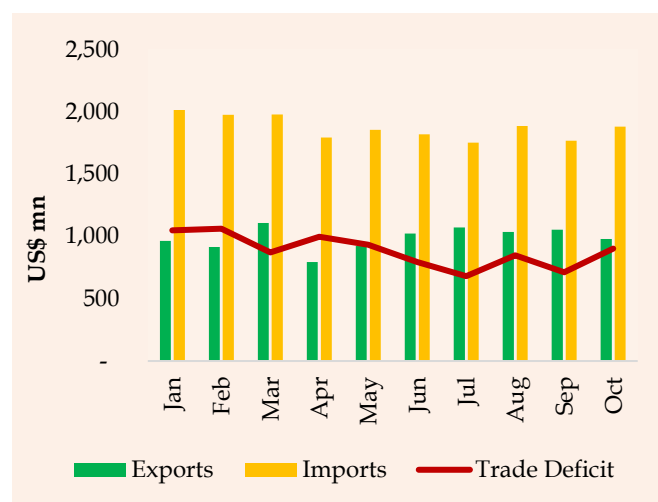
Sources: Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (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 for foreign loans to the government only available for September for monthly data and for the first nine months for cumulative data
- (g) Data available for the first nine 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 widened significantly in October 2018 in comparison to October 2017 due to higher growth in imports. On a cumulative basis, the deficit in the trade account expanded during the first ten months of 2018 in comparison to the corresponding period of 2017.

Figure 1: Monthly Merchandise Trade Performance - 2018



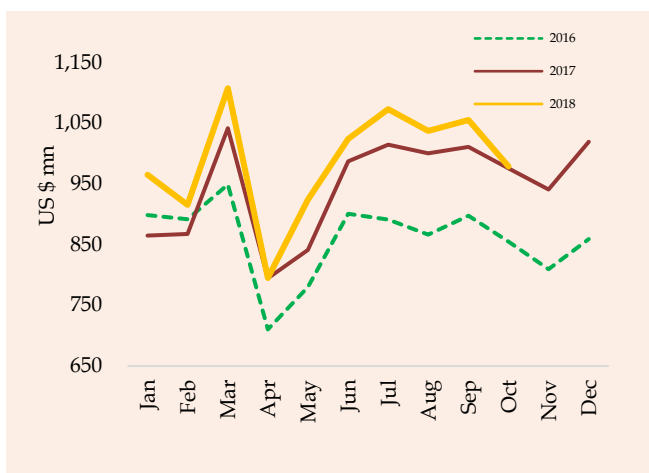
Sources: SLC, CBSL

Performance of Merchandise Exports

Earnings from merchandise exports increased by 0.4 per cent (year-on-year) to US dollars 979 million in October 2018. The marginal growth of exports in October reflects mainly the decline in agricultural exports by 11.5 per cent which offset the 4.5 per cent growth of industrial exports. Under industrial exports, export earnings from textiles

and garments increased marginally in October 2018 due to higher earnings from textile exports despite the slight decline registered in garment exports. The reduced earnings from garment exports was mainly driven by the lower demand from the USA, despite an increase in exports to the EU market and non-traditional markets such as India, Canada, Japan and Hong Kong. Further, reflecting the combined impact of both volume and export prices, earnings from petroleum products increased significantly in October 2018. Export earnings from food, beverages and tobacco and base metals and articles increased substantially during October 2018 due to improved performance in most of their sub categories. In addition, export earnings from animal fodder, machinery and mechanical appliances and transport equipment rose in October 2018 contributing towards the increase in industrial exports. However, export earnings from rubber products, gems, diamonds and jewellery and leather, travel goods and footwear declined in October 2018. Meanwhile, earnings from agricultural exports were lower during the month owing to the poor performance in almost all sub categories except seafood, vegetables and rubber. Reflecting lower average export prices and exported volumes, export earnings from tea declined in October 2018. Export earnings from spices also reduced during the month due to the poor performance in most categories of spices. Further, despite an increase in earnings from coconut non-kernel products, earnings from coconut exports decreased due to the drop in earnings from coconut kernel products such as desiccated coconut and coconut oil. However, owing to higher exports to the EU market, earnings from seafood exports rose during the month. Leading markets for merchandise exports of Sri Lanka in October 2018 were the USA,

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

India, the UK, Italy and Germany, which accounted for about 50 per cent of total exports.

Table 2: Earnings from Merchandise Exports (a)

Category	Oct 2017 (US\$ mn)	Oct 2018 (US\$ mn)	Change (%)	Jan - Oct 2017 (US\$ mn)	Jan - Oct 2018 (US\$ mn)	Change (%)
1. Industrial exports	725.0	757.4	4.5	7,032.1	7,657.0	8.9
Food, beverages and tobacco	35.1	42.7	21.7	331.4	389.9	17.7
Animal fodder	5.8	8.3	43.2	62.2	91.1	46.5
Textiles and garments	422.6	426.6	0.9	4,137.6	4,354.5	5.2
o/w Garments	399.7	395.8	(1.0)	3,895.2	4,062.7	4.3
Textiles	15.2	23.0	51.5	170.3	213.4	25.3
Other made up textile articles	7.7	7.8	0.9	72.2	78.4	8.6
Rubber products	78.8	71.4	(9.4)	693.5	727.6	4.9
Gems, diamonds and jewellery	25.8	24.3	(5.7)	214.2	238.8	11.5
Machinery and mechanical appliances	35.1	35.8	2.1	312.5	364.2	16.5
Transport equipment	6.3	7.1	14.0	151.0	105.4	(30.2)
Petroleum products	34.9	58.5	67.5	327.8	512.3	56.3
Chemical products	14.0	13.6	(2.9)	122.2	141.6	15.9
Wood and paper products	11.6	12.5	8.4	114.6	116.9	2.0
Printing industry products	3.7	1.5	(59.2)	37.9	24.8	(34.5)
Leather, travel goods and footwear	11.0	9.1	(16.9)	131.4	128.2	(2.5)
Plastics and articles thereof	6.2	6.6	6.9	59.7	63.9	7.1
Base metals and articles	8.5	15.0	75.4	93.9	138.5	47.5
Ceramic products	3.0	2.7	(9.5)	28.1	26.7	(5.0)
Other	22.7	21.5	(5.3)	214.1	232.6	8.6
2. Agricultural exports	245.6	217.3	(11.5)	2,323.4	2,175.0	(6.4)
Tea	136.2	115.5	(15.2)	1,275.9	1,208.2	(5.3)
Rubber	1.8	2.4	31.7	33.4	27.5	(17.5)
Coconut	30.1	28.6	(5.2)	303.3	266.7	(12.1)
Spices	42.4	33.2	(21.7)	339.9	302.5	(11.0)
Vegetables	2.5	3.0	20.5	24.6	23.9	(2.9)
Unmanufactured tobacco	2.9	2.5	(13.6)	29.6	29.2	(1.4)
Minor agricultural products	9.4	8.7	(7.4)	120.4	102.5	(14.8)
Seafood	20.2	23.3	15.7	196.3	214.4	9.2
3. Mineral and other	4.9	4.4	(9.2)	44.5	44.7	0.4
Total exports	975.6	979.1	0.4	9,400.0	9,876.7	5.1

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

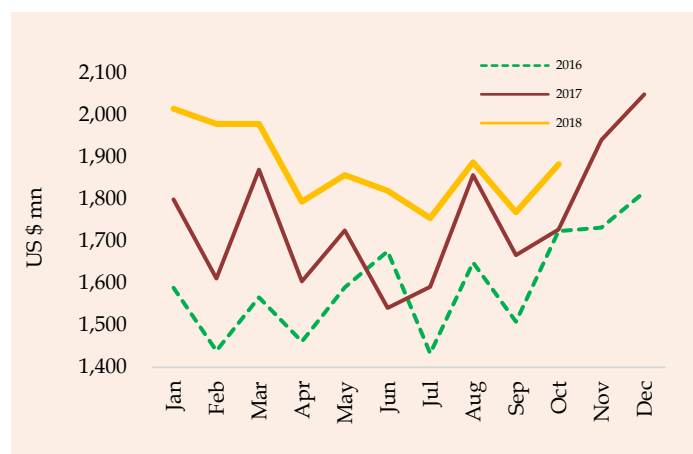
(a) Provisional

Performance of Merchandise Imports

Expenditure on merchandise imports increased by 9.0 per cent (year-on-year) to US dollars 1,882 million in October 2018. All three sub categories namely intermediate goods, consumer goods and investment goods contributed to the import growth. Expenditure on intermediate goods increased due to higher imports of textiles and textile

articles, fuel and wheat and maize imports. Import expenditure on textiles and textile articles increased mainly due to higher imports of fabric and yarn. Expenditure on fuel imports increased with the higher import prices of both crude oil and refined petroleum products despite the reduction recorded in import volume of refined petroleum. In addition, import expenditure on wheat and maize, chemical products, fertiliser, rubber and articles thereof and plastic and articles thereof increased during the month. However, expenditure on gold imports declined significantly in October 2018 reflecting the impact of customs duty imposed on gold since April 2018. Further, import expenditure on consumer goods increased during the month owing to higher imports of personal motor cars less than 1,500 cylinder capacity (cc), hybrid and electric motor vehicles. However, it is expected that the importation of motor vehicles would decelerate in the coming months reflecting the lagged impact on such imports of the policy measures introduced in September 2018. Meanwhile, expenditure on rice imports decreased during the month indicating the availability of sufficient quantities of domestic supply. It is notable that import expenditure on certain categories such as clothing and accessories, telecommunication devices, household and furniture items and home appliances decreased in October 2018 partly reflecting the impact of restrictions on non-essential consumer goods imports while also responding to relatively larger depreciation. Import expenditure on investment goods increased in October 2018 mainly due to higher expenditure incurred on machinery and equipment and building material imports. However, import expenditure on transport equipment reduced due to lower imports of commercial vehicles such as tankers and bowsers, lorries, buses and commercial cabs. China, India, Singapore, Japan and UAE were the main import origins in October 2018 accounting for about 61 per cent of total imports.

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	Oct 2017 (US\$ mn)	Oct 2018 (US\$ mn)	Change (%)	Jan - Oct 2017 (US\$ mn)	Jan - Oct 2018 (US\$ mn)	Change (%)
1. Consumer goods	382.2	438.5	14.7	3,661.2	4,259.1	16.3
Food and beverages	148.9	121.2	(18.6)	1,484.6	1,360.4	(8.4)
Cereals and milling industry products	37.8	2.5	(93.3)	245.9	118.0	(52.0)
o/w Rice	36.5	1.0	(97.3)	234.9	102.5	(56.3)
Dairy products	23.9	29.5	23.3	250.3	273.6	9.3
Vegetables	24.4	20.6	(15.6)	288.0	256.1	(11.1)
Sugar and confectionery	14.2	13.4	(5.8)	213.7	210.1	(1.7)
Spices	7.7	11.2	45.7	78.0	95.6	22.6
Beverages	6.6	9.6	44.2	67.1	73.8	10.1
Other food and beverages	34.2	34.5	0.8	341.6	333.2	(2.5)
Non-food consumer goods	233.3	317.3	36.0	2,176.6	2,898.7	33.2
Personal vehicles	54.8	160.8	193.2	615.2	1,391.4	126.2
Medical and pharmaceuticals	48.7	48.6	(0.3)	423.3	442.1	4.4
Home appliances	26.3	23.0	(12.6)	216.2	199.3	(7.8)
Clothing and accessories	34.6	22.8	(34.2)	319.1	260.1	(18.5)
Telecommunication devices	25.4	19.7	(22.2)	222.7	226.8	1.8
Household and furniture items	19.2	14.6	(24.0)	152.6	143.6	(5.9)
Other non-food consumables	24.2	27.8	15.0	227.5	235.5	3.5
2. Intermediate goods	948.4	1,017.5	7.3	9,169.6	10,430.3	13.7
Fuel	236.9	265.9	12.3	2,688.2	3,431.0	27.6
o/w Crude oil	41.6	62.0	49.1	512.6	776.0	51.4
Refined petroleum	176.1	200.9	14.1	1,982.2	2,504.6	26.4
Diamonds, precious stones and metals	79.5	13.2	(83.3)	594.3	542.9	(8.7)
o/w Gold	63.3	0.5	(99.2)	498.0	438.6	(11.9)
Textiles and textile articles	242.1	279.7	15.5	2,240.6	2,371.3	5.8
Chemical products	76.7	90.1	17.4	690.0	761.1	10.3
Plastic and articles thereof	58.4	64.0	9.5	516.1	585.8	13.5
Wheat and maize	31.1	53.9	73.1	295.7	326.6	10.5
Base metals	43.4	46.6	7.4	462.6	519.8	12.4
Paper and paperboard and articles thereof	46.1	46.6	1.1	399.7	441.3	10.4
Rubber and articles thereof	24.3	32.2	32.6	240.6	228.8	(4.9)
Fertiliser	10.6	23.1	118.5	81.8	210.9	158.0
Food preparations	22.8	20.2	(11.6)	245.8	254.2	3.4
Other	76.4	81.9	7.2	714.3	756.7	5.9
3. Investment goods	392.5	425.7	8.5	4,016.2	3,970.4	(1.1)
Machinery and equipment	205.6	233.5	13.5	2,147.4	2,112.1	(1.6)
Building material	125.2	138.7	10.8	1,302.9	1,279.4	(1.8)
Transport equipment	61.2	53.1	(13.3)	559.0	573.8	2.6
Other investment Goods	0.5	0.5	0.0	6.8	5.1	(25.5)
4. Unclassified imports	4.1	0.7	(82.8)	143.9	73.7	(48.8)
Total imports	1,727.2	1,882.5	9.0	16,990.9	18,733.5	10.3

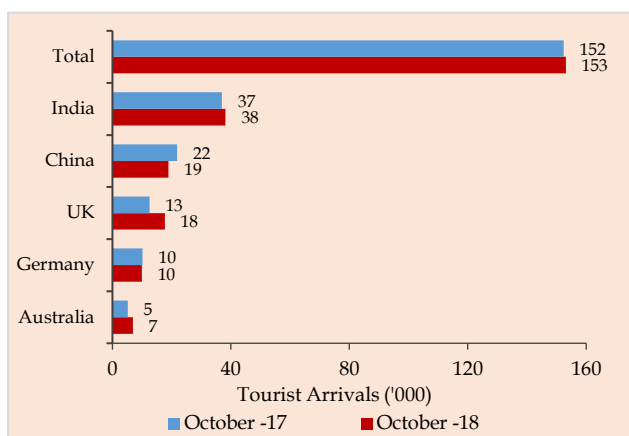
Sources: SLC, CPC, Lanka IOC PLC, CBSL

(a) Provisional

Other Major Inflows to the Current Account

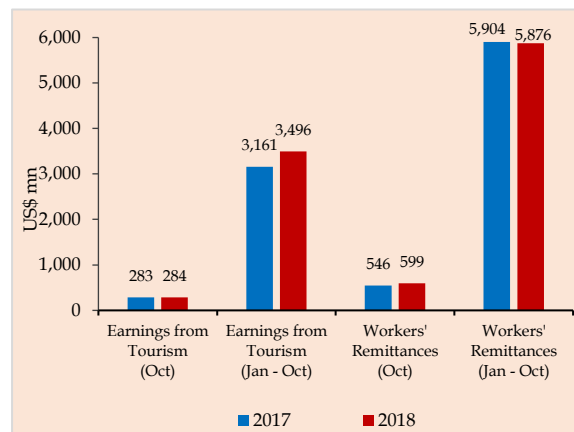
Earnings from tourism in October 2018 are estimated at US dollars 284 million, with cumulative earnings at US dollars 3,496 million during the first ten months of 2018. Tourist arrivals in October 2018 grew marginally by 0.5 per cent as a result of a decline in tourists arriving from China, Germany and France compared to October 2017. Tourist arrivals during the first ten months of 2018 totalled 2,080,627, resulting in a 11.2 per cent increase over the corresponding period of 2017. Meanwhile, workers' remittances at US dollars 599 million recorded an increase of 9.7 per cent, year-on-year, in October 2018. Such increase is noteworthy after marginal decreases for five consecutive months on a year on year basis. Consequently, the decline in workers' remittances for the first ten months of the year was 0.5 per cent in comparison to the corresponding period of 2017, while US dollars 5,876 million was received as remittances during the first ten months of 2018.

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

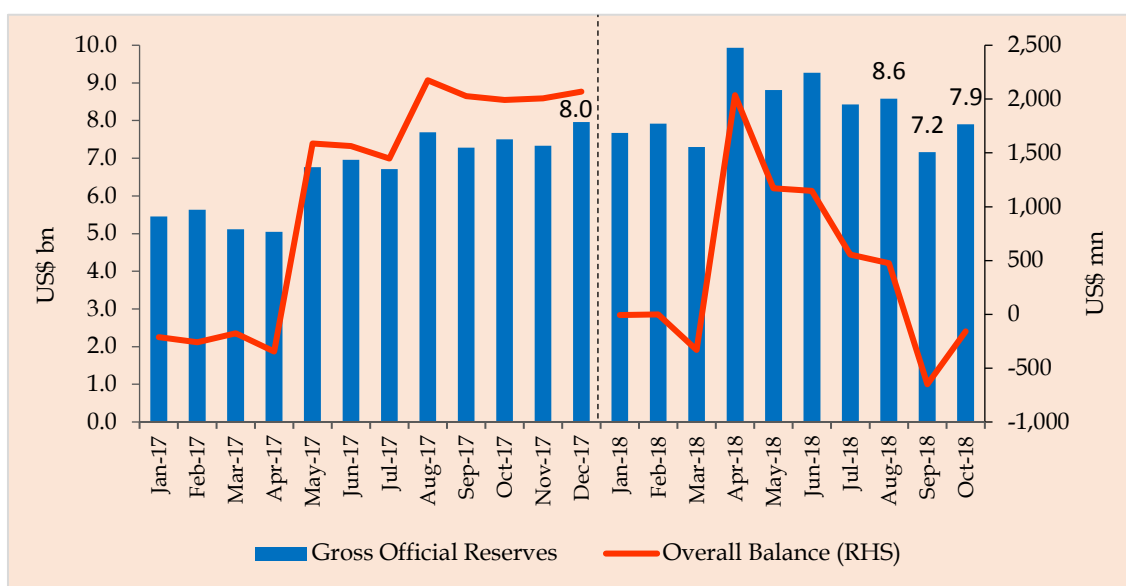
The major inflow to the financial account during October was a foreign currency term financing facility of US dollars 1 billion obtained by the government. However, the trend of foreign investments outflows from the financial account continued during October 2018, with notable outflows from the Colombo Stock Exchange (CSE) and the government securities market. The government securities market recorded a net outflow of US dollars 172 million in the month of October, thus raising the net cumulative outflow to US dollars 640 million by the end of the first ten months of 2018.

Meanwhile, foreign investments in the CSE, including both secondary and primary markets, recorded a net outflow of US dollars 36 million during the month of October 2018. On a cumulative basis, the CSE recorded a net inflow of US dollars 1 million in the first ten months of 2018 which comprised an inflow of US dollars 77 million to the primary market and a net outflow of US dollars 76 million from the secondary market.

International Reserves

Gross official reserves were estimated at US dollars 7.9 billion, equivalent to 4.2 months of imports as at end October 2018. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 10.4 billion at end October 2018, equivalent to 5.5 months of imports.

Figure 6: Gross Official Reserves and Overall Balance

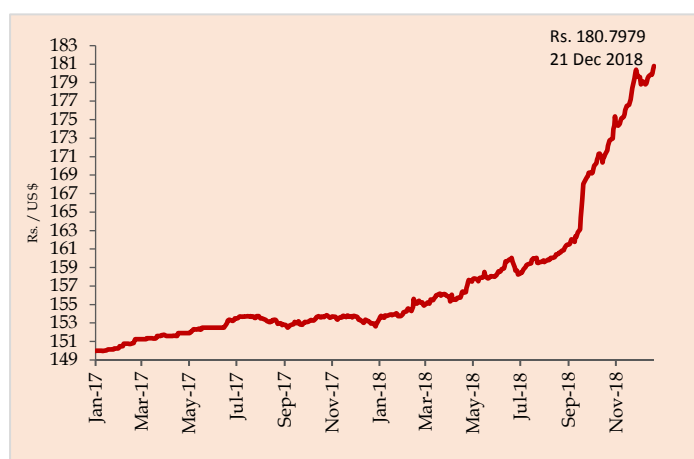


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee depreciated by 15.5 per cent against the US dollar during the year up to 21 December 2018. Furthermore, reflecting cross currency movements, the rupee 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 related payments 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 21 December) Depreciation (-)
US dollar	-2.0%	-15.5%
Euro	-13.5%	-11.9%
Pound sterling	-10.5%	-10.2%
Japanese yen	-5.1%	-16.6%
Canadian dollar	-8.6%	-9.2%
Australian dollar	-9.0%	-7.5%
Indian rupee	-7.5%	-7.7%

Source: CBSL