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Press Release

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External Sector Performance – June 2018

Overview

Sri Lanka's external sector displayed a mixed performance in June 2018. Even though the lowest trade deficit so far during the year in absolute terms was recorded in the month of June, the trade deficit widened significantly in comparison to June 2017 as the growth in import expenditure outpaced the increase in export earnings. Earnings from tourism increased notably in June 2018 continuing the growth momentum observed since the beginning of the year, although workers' remittances declined during the month in comparison to June 2017. The financial account of the Balance of Payments (BOP) was supported by the fifth tranche of the Extended Fund Facility of the International Monetary Fund (IMF-EFF) and the third tranche of the divestiture of the Hambantota Port, however, outflows of foreign investment from the government securities market and the secondary market of the Colombo Stock Exchange (CSE) exerted some pressure on the BOP. Reflecting developments in the domestic and global foreign exchange markets, the Sri Lankan rupee depreciated by 3.4 per cent against the US dollar by end June 2018 and by 5.0 per cent during the year up to 27 August 2018. The country's gross official reserves as at end June 2018 were US dollars 9.3 billion.

Table 1: Summary of External Sector Performance (a)

Category	June 2017 US\$ mn	June 2018 US\$ mn	Change (%)	Jan-June 2017 US\$ mn	Jan-June 2018 US\$ mn	Change (%)
Exports	987	1,024	3.8	5,398	5,732	6.2
Imports	1,541	1,819	18.1	10,149	11,441	12.7
Trade balance (net)	-554	-795		-4,751	-5,709	
Earnings from tourism	229 (b)	272 (c)	19.0	1,874 (b)	2,160 (c)	15.3
Workers' remittances	591 (d)	524	-11.4	3,591 (d)	3,624	0.9
Inflows to the CSE (net) (e)	38	0.3		229	53	
Inflows to the Government (gross)	303	157		3,369	3,838	
Treasury bills and bonds	158	48		730	553	
Long term loans	145	109		689	785	
Syndicated loans	-	-		450	-	
International Sovereign Bonds	-	-		1,500	2,500	
IMF-EFF Receipts	-	252		-	252	
Foreign Direct Investment (f)				193	492	
Overall Balance				1,563	1,148	

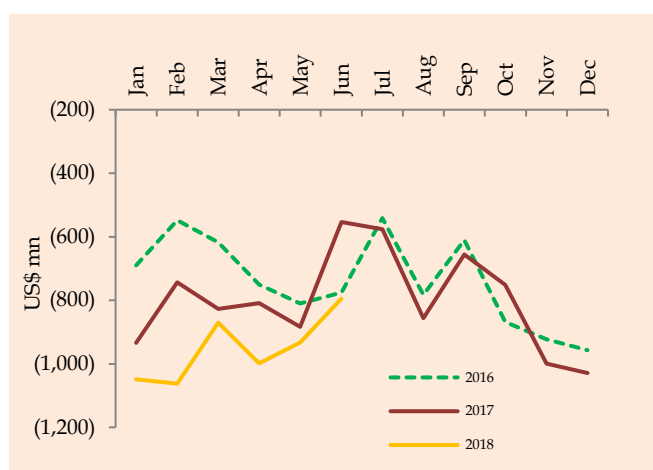
Sources: Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (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 continued to expand in June 2018 in comparison to June 2017, driven by the higher growth in imports. On a cumulative basis, the trade deficit expanded significantly during the first half of 2018 in comparison to the first half of 2017.

Figure 1: Monthly Trade Balance



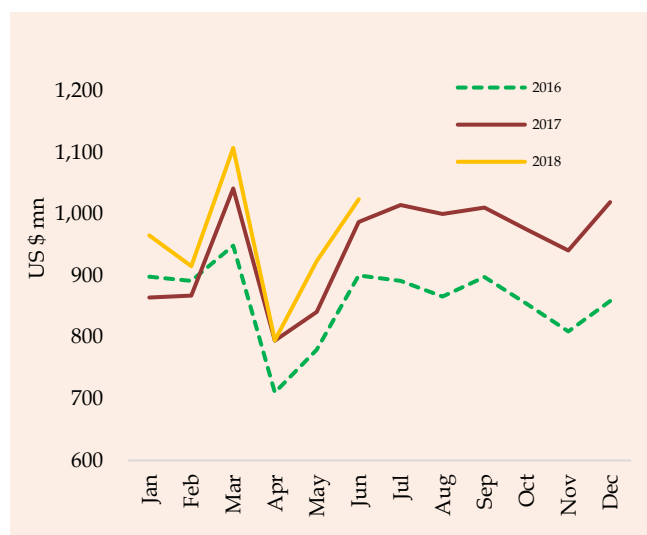
Sources: SLC, CBSL

Performance of Merchandise Exports

Earnings from merchandise exports surpassed US dollars 1 billion for the second time during the year to US dollars 1,024 million in June 2018, mainly driven by industrial exports. Under industrial exports, earnings from textiles and garment exports increased significantly due to the higher demand from the EU and the USA while exports to non-traditional markets also increased.

Export earnings from petroleum products increased significantly in June 2018 due to the combined effect of higher export prices and volumes of bunker and aviation fuel. Export earnings from rubber products increased mainly due to higher earnings from tyre exports. Earnings from exports of machinery and mechanical appliances also increased notably during the month owing to the increase in earnings from electrical machinery and equipment and electronic equipment exports. Meanwhile, export of base metals and articles increased due to higher exports of iron and steel articles and aluminium articles. However, earnings from transport equipment exports declined significantly mainly due to the effect of higher earnings recorded in June 2017 following the export of two ships. In addition, food, beverages and tobacco and leather, travel goods and footwear exports also declined notably in June 2018 in comparison to June 2017. Meanwhile, earnings from agricultural exports declined in June 2018 due to the poor performance in almost all categories except seafood, unmanufactured tobacco and rubber exports. Export earnings from tea declined as both prices and volumes exported reduced in June 2018. In addition, export earnings from spices declined marginally in June 2018 as the growth in cinnamon, and nutmeg and mace was outperformed by the decline in pepper, cloves and other spices. However, benefiting from the positive impact of the removal of the ban on fisheries exports to the EU and the restoration of GSP+ facility, earnings from seafood exports increased significantly during the month due to higher prices and volumes of seafood

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

exported. Leading markets for merchandise exports of Sri Lanka in June 2018 were the USA, the UK, India, Italy and Germany, which accounted for about 48 per cent of total exports.

Table 2: Earnings from Merchandise Exports (a)

Category	June 2017 (US\$ mn)	June 2018 (US\$ mn)	Change (%)	Jan - June 2017 (US\$ mn)	Jan - June 2018 (US\$ mn)	Change (%)
1. Industrial exports	749.8	800.7	6.8	4,065.8	4,433.7	9.0
Food, beverages and tobacco	58.9	38.7	(34.2)	190.8	232.3	21.7
Animal fodder	7.2	8.5	18.1	40.6	54.2	33.5
Textiles and garments	398.1	453.5	13.9	2,383.6	2,519.0	5.7
o/w Garments	375.4	419.4	11.7	2,244.7	2,350.8	4.7
Textiles	15.9	25.7	61.7	99.7	120.6	20.9
Other made up textile articles	6.8	8.3	21.5	39.2	47.5	21.3
Rubber products	73.1	77.3	5.8	388.5	426.4	9.8
Gems, diamonds and jewellery	20.6	21.7	5.1	123.9	151.4	22.2
Machinery and mechanical appliances	28.5	45.0	57.7	180.4	219.9	21.9
Transport equipment	54.3	8.5	(84.3)	125.0	51.0	(59.2)
Petroleum products	29.2	52.7	80.7	176.9	272.0	53.8
Chemical products	12.0	15.2	27.3	70.2	81.8	16.5
Wood and paper products	11.1	12.4	12.0	67.5	70.4	4.3
Printing industry products	4.0	3.8	(3.0)	17.7	10.2	(42.4)
Leather, travel goods and footwear	15.4	12.5	(18.9)	77.7	77.5	(0.2)
Plastics and articles thereof	6.7	6.7	0.7	35.8	38.6	7.7
Base metals and articles	6.8	15.1	121.0	51.4	77.0	49.9
Ceramics products	3.2	2.8	(10.9)	16.0	14.7	(8.4)
Other	20.8	26.1	25.5	119.7	137.3	14.7
2. Agricultural exports	232.0	219.4	(5.4)	1,306.4	1,272.3	(2.6)
Tea	138.6	129.6	(6.5)	728.4	728.9	0.1
Rubber	2.0	2.2	10.4	23.9	18.7	(21.7)
Coconut	30.1	25.0	(17.1)	173.8	150.1	(13.6)
Spices	27.8	27.7	(0.5)	160.7	149.7	(6.9)
Vegetables	2.3	1.8	(20.7)	14.7	12.6	(14.2)
Unmanufactured tobacco	2.9	3.5	20.9	16.4	16.8	2.5
Minor agricultural products	13.1	10.6	(18.6)	71.4	62.1	(13.0)
Seafood	15.2	18.9	24.5	117.1	133.4	13.9
3. Mineral and other	5.5	4.2	(22.3)	25.4	25.9	1.9
Total exports	987.3	1,024.4	3.8	5,397.6	5,731.9	6.2

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

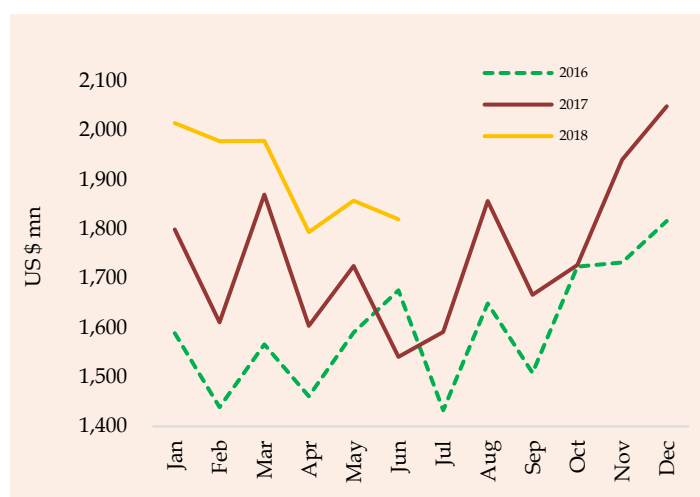
(a) Provisional

Performance of Merchandise Imports

Expenditure on merchandise imports increased to US dollars 1,819 million in June 2018 mainly due to high expenditure incurred on fuel, vehicles and transport equipment. Expenditure on fuel imports, categorised under intermediate goods, increased considerably during the month owing to higher import prices and volumes of crude oil and refined petroleum

products. In addition, expenditure on textiles and textile articles imports increased in June 2018 reflecting higher expenses on all sub categories, particularly fabric and yarn imports. Also, import expenditure on base metals, wheat and maize, fertiliser and food preparations contributed towards the increase in intermediate goods imports during the month. However, expenditure on the importation of gold, which increased considerably since early 2016, declined notably for the second consecutive month in June 2018. Meanwhile, import expenditure on personal vehicles, categorised under consumer goods, increased significantly in June 2018 owing to the substantial increase in imports of vehicles with less than 1,000 cylinder capacity (cc), hybrid and electric vehicles. As taxes applicable on small vehicle imports were revised upward with effect from 01.08.2018, vehicle imports are expected to decelerate to some extent in the coming months. However, the reduction in import of seafood, rice and sugar under consumer goods, contributed towards mitigating the pressure on import expenditure during the month. Meanwhile, higher expenditure on transport equipment driven by the importation of four ships and road vehicles such as commercial cabs and auto-trishaws, led to an increase in investment goods imports despite a decline in machinery and equipment and building material. China, India, Japan, UAE and Singapore were the main import origins in June 2018, which accounted for about 58 per cent of total imports.

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	June 2017 (US\$ mn)	June 2018 (US\$ mn)	Change (%)	Jan - June 2017 (US\$ mn)	Jan - June 2018 (US\$ mn)	Change (%)
1. Consumer goods	322.7	425.9	32.0	2,221.8	2,620.7	18.0
Food and beverages	131.4	125.8	(4.2)	923.5	907.1	(1.8)
Cereals and milling industry products	7.5	1.9	(74.4)	138.1	109.7	(20.5)
o/w Rice	6.6	0.5	(92.1)	131.8	100.1	(24.0)
Sugar and confectionery	25.9	22.6	(13.0)	150.7	152.9	1.5
Dairy products	23.5	28.8	22.7	160.4	166.7	3.9
Vegetables	27.1	28.3	4.7	176.7	170.0	(3.8)
Seafood	20.4	10.6	(47.9)	110.8	104.6	(5.6)
Beverages	6.0	9.7	62.1	38.9	43.0	10.7
Spices	7.3	8.2	12.4	50.7	51.9	2.3
Other food and beverages	13.7	15.6	14.0	97.2	108.2	11.3
Non-food consumer goods	191.3	300.1	56.9	1,298.4	1,713.7	32.0
Personal vehicles	54.0	146.8	171.8	370.2	812.7	119.5
Medical and pharmaceuticals	45.0	48.3	7.3	248.7	258.8	4.0
Telecommunication devices	16.2	24.8	53.2	133.3	141.4	6.1
Clothing and accessories	24.5	24.6	0.6	198.9	165.1	(17.0)
Home appliances	18.4	18.3	(0.4)	128.3	120.0	(6.5)
Household and furniture items	12.5	13.4	7.5	81.7	84.1	3.0
Rubber products	6.6	7.9	19.1	44.7	45.2	1.1
Cosmetics and toiletries	7.1	5.7	(18.8)	43.4	36.0	(17.1)
Other non-food consumables	7.1	10.3	44.7	49.2	50.4	2.3
2. Intermediate goods	792.1	947.4	19.6	5,349.0	6,319.9	18.2
Fuel	200.6	342.7	70.9	1,624.5	2,093.6	28.9
o/w Crude oil	35.6	111.8	213.9	279.4	431.3	54.4
Refined petroleum	164.9	228.1	38.3	1,174.3	1,515.2	29.0
Diamonds, precious stones and metals	56.9	8.5	(85.1)	328.0	495.2	51.0
o/w Gold	46.0	0.4	(99.2)	274.9	437.8	59.2
Textiles and textile articles	219.0	230.9	5.4	1,306.9	1,360.5	4.1
Chemical products	67.1	72.0	7.4	408.2	446.0	9.3
Plastic and articles thereof	49.1	52.8	7.5	302.6	353.0	16.7
Paper and paperboard and articles thereof	41.1	45.1	9.9	223.1	250.4	12.2
Base metals	32.5	43.4	33.6	251.9	289.1	14.8
Food preparations	18.6	26.8	44.3	146.8	162.3	10.5
Fertiliser	12.0	20.6	71.5	39.1	121.2	209.6
Wheat and maize	7.3	18.1	148.5	162.5	193.0	18.8
Mineral products	15.0	10.1	(32.7)	93.8	85.1	(9.3)
Other	73.1	76.3	4.5	461.6	470.7	2.0
3. Investment goods	405.3	443.5	9.4	2,447.2	2,432.4	(0.6)
Machinery and equipment	220.2	195.6	(11.2)	1,319.0	1,263.9	(4.2)
Building material	128.5	117.2	(8.8)	789.6	759.2	(3.9)
Transport equipment	55.8	130.4	133.9	333.8	406.0	21.6
Other investment Goods	0.8	0.3	(63.8)	4.7	3.3	(29.3)
4. Unclassified imports	20.8	2.7	(87.1)	130.9	68.0	(48.1)
Total imports	1,540.9	1,819.5	18.1	10,149.0	11,441.1	12.7

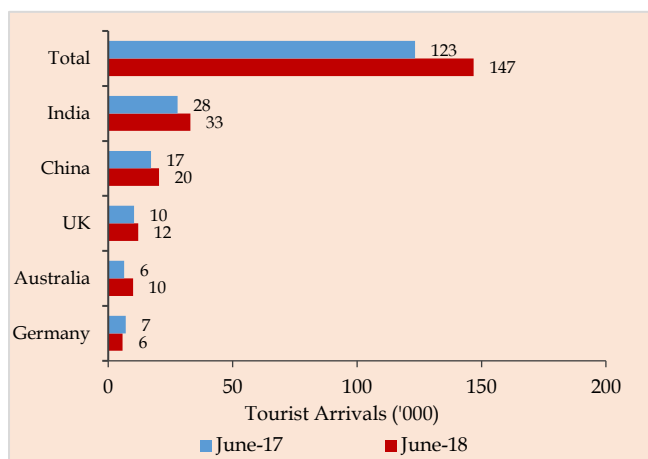
(a) Provisional

Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

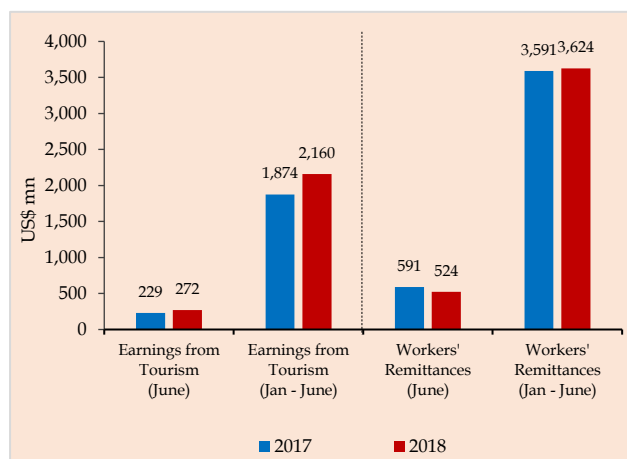
Tourist arrivals increased by 19.0 per cent in June 2018 to 146,828 as a result of healthy growth in the number of tourists arriving from India, Australia, Saudi Arabia and China in comparison to June 2017. Total tourist arrivals during the first half of 2018 at 1,164,647 was a 15.3 per cent increase over the first half of 2017. Earnings from tourism in June 2018 are estimated at US dollars 272 million, with cumulative earnings amounting to US dollars 2,160 million during the first half of 2018. Meanwhile, continuing the decline observed in the previous month, workers' remittances declined by 11.4 per cent, year on year, to US dollars 524 million in June 2018. Consequently, workers' remittances recorded a cumulative growth of 0.9 per cent to reach US dollars 3,624 million during the first half 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

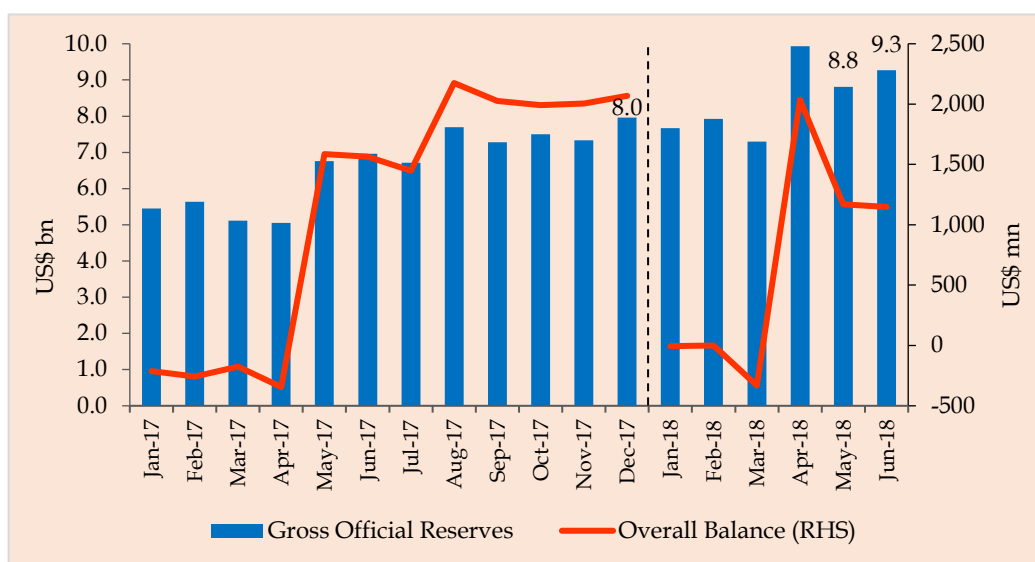
Foreign investments in the CSE, including both primary and secondary market foreign exchange flows, recorded a marginal net inflow of US dollars 0.3 million during the month of June 2018. Consequently, cumulative net inflows to the CSE in the first half of 2018 amounted to US dollars 53 million. Meanwhile, the government securities market recorded a net foreign investment outflow of US dollars 74 million in June 2018, thus raising the net cumulative outflow to US dollars 176 million by end June

2018. Further, long term loans to the government recorded a net outflow of US dollars 115 million during June 2018.

International Reserves

With the receipt of the fifth tranche under the IMF-EFF of US dollars 252 million and proceeds of the third tranche from the divestiture of Hambantota Port amounting to US dollars 585 million, the level of gross official reserves of the country increased to US dollars 9.3 billion at end June 2018 from US dollars 8.8 billion recorded at end May 2018. This level of reserves was equivalent to 5.0 months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, were estimated at US dollars 11.3 billion as at end June 2018 which was equivalent to 6.1 months of imports.

Figure 6: Gross Official Reserves and Overall Balance

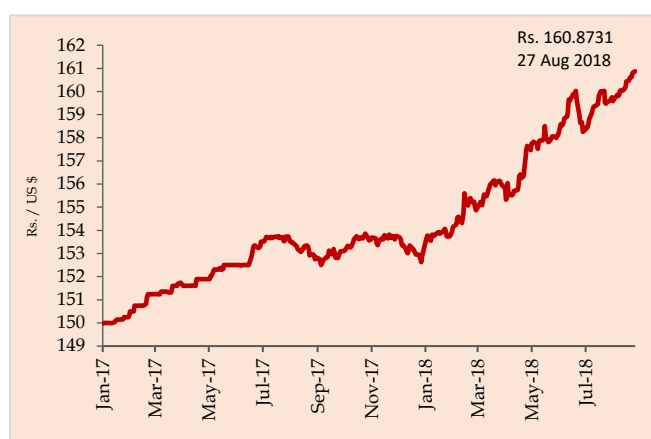


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee depreciated by 5.0 per cent against the US dollar during the year up to 27 August 2018. Furthermore, reflecting cross currency movements, the Sri Lankan rupee depreciated against the euro, the pound sterling, the Japanese yen and the Canadian dollar while appreciating against the Australian dollar and the Indian rupee during this period.

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 27 Aug 2018 Appreciation (+) / Depreciation (-)
US dollar	-2.0%	-5.0%
Euro	-13.5%	-2.5%
Pound sterling	-10.5%	-0.6%
Japanese yen	-5.1%	-6.4%
Canadian dollar	-8.6%	-1.6%
Australian dollar	-9.0%	+1.1%
Indian rupee	-7.5%	+3.7%

Source: CBSL