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Press Release

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External Sector Performance - July 2017

Overview

Sri Lanka's external sector continued to improve with increased exports and inflows to the financial account. However, the trade deficit widened in July 2017 compared to the corresponding month of 2016 due to higher import expenditure amid the increase in export earnings. Tourist earnings declined marginally in July while workers' remittances increased, reversing its declining trend observed in the last four months. Inflows to the financial account continued to strengthen with net inflows to the government securities market, long term loans to the government, receipt of the third tranche of the Extended Fund Facility (EFF) of the International Monetary Fund (IMF), as well as continued portfolio investment inflows to the Colombo Stock Exchange (CSE).

Export Performance

Continuing the upward trend observed since March 2017, earnings from exports increased in July 2017 surpassing the US dollars 1 billion mark for the second time during the year. Accordingly, earnings from exports at US dollars 1,016 million in

July 2017 registered a year-on-year growth of 13.9 per cent. The growth in exports was mainly driven by industrial exports followed by agricultural exports.

Earnings from industrial exports grew by 11.6 per cent (year-on-year) to US dollars 757 million in July 2017, led by increased exports of textiles and garments. Indicating a reversal of negative growth experienced in the previous two months, export earnings from textiles and garments increased by 9.6 per cent (year-on-year) to US dollars 467 million compared to July 2016, registering the highest monthly value recorded so far during the year. Garment exports to the EU market increased by 10.6 per cent (year-on-year) to US dollars 188 million in July 2017 signalling the positive impact of the restoration of the GSP+ facility in May 2017. During the month, garment exports to the USA and non-traditional markets also grew by 7.9 per cent and 6.5 per cent (year-on-year), respectively. Meanwhile, export earnings from food, beverages and tobacco increased significantly by 46.8 per cent (year-on-year) to US dollars 34 million. Further, reflecting the improved performance in all sub categories, export earnings from rubber products increased by 15.2 per cent (year-on-year) in July 2017. Due to higher export volumes and prices of bunker and aviation fuel, earnings from export of petroleum products increased significantly by 21.5 per cent (year-on-year) in July 2017. Meanwhile, export earnings from chemical products (led by perfumes), printing products (led by currency notes) and base metals and articles increased during the month compared to the corresponding month of the previous year. However, export earnings from leather, travel goods and footwear, and gems, diamonds and jewellery declined in July 2017.

Earnings from agricultural exports increased substantially by 21.8 per cent (year-on-year) to US dollars 253 million in July 2017 mainly due to notable performance recorded in tea exports. Export earnings from tea increased significantly by 32.7 per cent (year-on-year) to US dollars 143 million due to the combined effect of higher tea prices and volumes. The average export price of tea increased by 27.8 per cent to US dollars 5.36 per kg in July 2017 from US dollars 4.19 per kg in July 2016 and US dollars 4.86 per kg reported at end 2016. The volume of tea exports grew by 3.8 per cent to 26.7 million kgs in July 2017, recording the highest export volume of tea so far during

the year. In addition, earnings from seafood exports increased considerably by 42.5 per cent (year-on-year) to US dollars 20 million in July 2017, registering a 65.1 per cent year-on-year growth in exports to the EU market. The notable performance in seafood exports indicates the positive impact of the removal of the ban on exports of fisheries products to the EU market and regaining of the GSP+ facility. Meanwhile, export earnings from spices increased by 14.0 per cent (year-on-year) during the month, reflecting higher volumes in almost all sub categories. However, earnings from exports of minor agricultural products, coconut kernel products and vegetables declined in July 2017.

On a cumulative basis, earnings from exports grew by 6.5 per cent (year-on-year) to US dollars 6,413 million during the first seven months of 2017 due to increased earnings received from exports of tea, transport equipment, petroleum products, spices and seafood. In contrast, on a cumulative basis, export earnings from textiles and garments, gems, diamonds and jewellery and leather, travel goods and footwear declined during the period under consideration.

During the first seven month of 2017, the USA, the UK, India, Germany and Italy were the leading markets for merchandise exports of Sri Lanka accounting for about 50 per cent of total exports.

Table 1: Export Earnings (a)

Category	July 2016 (US\$ mn) (b)	July 2017 (US\$ mn)	Change (%)	Jan - Jul 2016 (US\$ mn) (b)	Jan - Jul 2017 (US\$ mn)	Change (%)
1. Industrial exports	678.9	757.3	11.6	4,683.3	4,823.1	3.0
Textiles and garments	425.6	466.6	9.6	2,940.2	2,850.2	(3.1)
o/w Garments	405.2	441.1	8.8	2,782.3	2,685.8	(3.5)
Food, beverages and tobacco	22.8	33.5	46.8	196.8	224.3	14.0
Rubber products	68.2	78.5	15.2	440.2	467.1	6.1
Petroleum products	30.1	36.6	21.5	162.4	213.5	31.5
Chemical products	9.1	13.7	50.9	74.5	83.9	12.6
Printing industry products	2.3	6.3	167.5	12.5	24.0	91.8
Base metals and articles	6.1	9.5	56.1	42.9	60.9	42.0
Transport equipment	6.4	6.7	5.2	73.5	131.7	79.2
Gems, diamonds and jewellery	18.3	17.2	(6.0)	166.6	141.1	(15.3)
Leather, travel goods and footwear	19.6	12.8	(34.8)	101.2	90.5	(10.6)
Other	70.4	75.9	7.8	472.4	535.9	13.4
2. Agricultural exports	207.9	253.3	21.8	1,312.6	1,559.7	18.8
Tea	107.8	143.0	32.7	726.1	871.4	20.0
Seafood	14.2	20.3	42.5	97.7	137.4	40.6
Spices	33.1	37.7	14.0	158.4	198.4	25.3
Unmanufactured tobacco	1.4	3.6	152.2	17.7	20.0	13.0
Coconut	31.8	32.5	2.2	206.0	206.3	0.2
Rubber	1.6	2.1	33.3	18.6	26.1	40.1
Vegetables	3.1	2.3	(26.3)	16.3	16.9	3.7
Minor agricultural products	14.9	11.8	(21.1)	71.8	83.2	15.9
3. Mineral and other	4.7	5.3	11.0	25.9	30.6	18.2
Total exports	891.5	1,015.9	13.9	6,021.8	6,413.4	6.5

Sources: Sri Lanka Customs
National Gem and Jewellery Authority
Ceylon Petroleum Corporation and Other Exporters of Petroleum
Central Bank of Sri Lanka

(a) Provisional

(b) Revised

Import Performance

Expenditure on imports increased in July 2017 mainly reflecting the base effect of the lowest import value recorded in the corresponding period of the previous year. Accordingly, expenditure on imports at US dollars 1,591 million registered a growth

of 11.1 per cent (year-on-year) in July 2017. Higher expenditure on intermediate goods largely contributed to this growth.

Expenditure on intermediate goods imports increased significantly by 28.0 per cent (year-on-year) to US dollars 902 million in July 2017 mainly due to increased expenditure on imports of fuel, gold and textiles and textile articles. Expenditure on fuel imports increased considerably by 51.7 per cent (year-on-year) to US dollars 216 million in July 2017, largely driven by higher imports of refined petroleum products. Further, reflecting the impact of high prices of fuel in the international market, expenditure on crude oil imports increased by 2.8 per cent in July 2017 despite a reduction recorded in import volumes. Average import price of crude oil increased to US dollars 49.75 per barrel in July 2017 from a purchase price of US dollar 46.10 per barrel in July 2016. Further, expenditure on gold imports increased substantially by 182.0 per cent (year-on-year) to US dollars 62 million during the month, owing to higher volumes of gold imports. Import expenditure on textiles and textile articles increased by 19.7 per cent in July 2017 with higher expenditure on fabrics and fibers indicating the likelihood of increased exports of textiles and garments in the period ahead. Meanwhile, higher imports of base metals, wheat and maize, and food preparations contributed largely towards increasing intermediate goods imports during the month. However, import expenditure on mineral products declined by 67.6 per cent (year-on-year) in July 2017, reflecting the base effect owing to high imports of cement clinkers in July 2016.

Meanwhile, expenditure on consumer goods imports increased by 3.4 per cent (year-on-year) to US dollars 334 million in July 2017 due to increased imports of food and beverages despite a decline in non-food consumer goods. Import expenditure on food and beverages grew by 10.2 per cent (year-on-year) in July 2017, mainly due to higher expenditure incurred on the importation of rice. Accordingly, although there was a reduction in average import prices, expenditure on rice imports continued to increase during the month due to the significant increase recorded in the import volume of rice following the measures taken to import rice to fulfil the shortage in the domestic market. In addition, import expenditure on personal vehicles also increased by 15.9

per cent (year-on-year) in July 2017 as a result of the increase in the importation of motor cycles and motor cars. Meanwhile, import expenditure on telecommunication devices and household and furniture items increased during the month. However, import expenditure on spices, sugar, vegetables, and clothing and accessories recorded a decline in July 2017.

Import expenditure on investment goods declined by 12.7 per cent (year-on-year) to US dollars 352 million in July 2017, reflecting lower imports in all sub categories. Expenditure on machinery and equipment declined by 13.2 per cent during the month, with the decline in imports of machinery and equipment parts, telecommunication devices, turbines, and agricultural machinery. Import expenditure on building materials also declined by 8.0 per cent (year-on-year) during this period, owing to lower imports of cement, iron and steel, and articles of iron and steel. Moreover, import expenditure on transport equipment decreased by 20.9 per cent (year-on-year) in July 2017 mainly due to lower imports of road vehicles such as auto trishaws and cabs for commercial purposes.

Reflecting these developments, on a cumulative basis, import expenditure increased by 9.2 per cent (year-on-year) to US dollars 11,742 million during the first seven months of 2017 largely due to higher imports of fuel, gold and rice. However, import expenditure on machinery and equipment, personal vehicles and fertiliser declined during this period.

With regard to origins of imports, India, China, the UAE, Singapore and Japan were the main import origins during the first seven months of 2017 accounting for about 59 per cent of total imports.

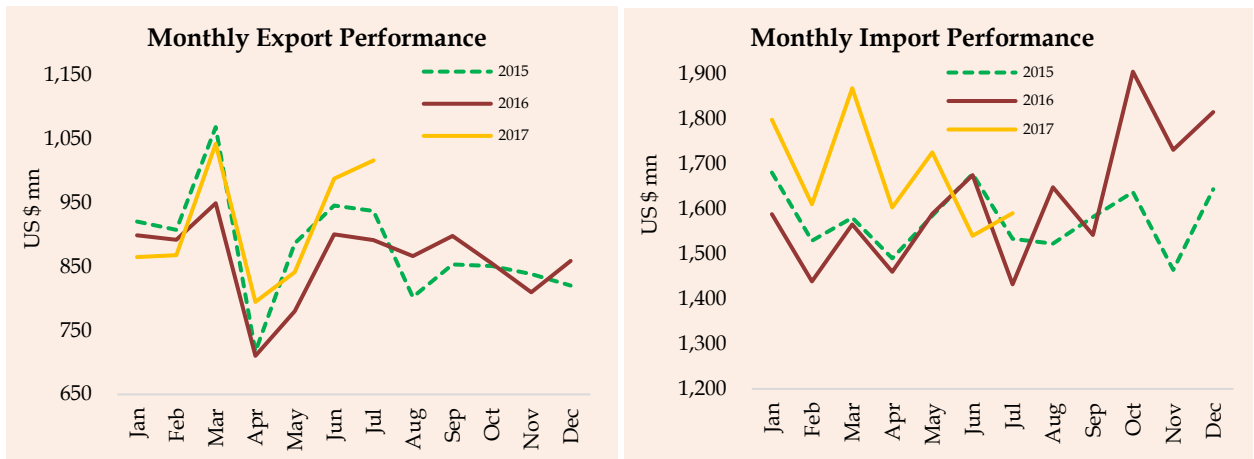
Table 2: Import Expenditure (a)

Category	July 2016 (US\$ mn)	July 2017 (US\$ mn)	Change (%)	Jan - Jul 2016 (US\$ mn)	Jan - Jul 2017 (US\$ mn)	Change (%)
1. Consumer goods	323.4	334.5	3.4	2,431.1	2,558.4	5.2
Food and beverages	120.8	133.1	10.2	896.5	1,056.6	17.9
Cereals and milling industry products	1.1	24.2	2,077.6	12.1	162.3	1,242.2
o/w Rice	0.5	23.3	4,428.6	6.4	155.1	2,327.3
Beverages	6.9	8.4	20.7	49.4	47.2	(4.4)
Seafood	17.8	18.3	2.9	139.2	129.1	(7.2)
Oils and fats	3.6	2.8	(21.4)	20.8	27.4	31.2
Vegetables	29.7	26.2	(11.9)	228.1	202.9	(11.0)
Sugar and confectionery	22.5	18.9	(15.9)	156.2	169.6	8.6
Spices	9.8	5.6	(42.4)	76.7	56.3	(26.6)
Other food and beverages	29.4	28.7	(2.3)	214.0	261.8	22.3
Non-food consumer goods	202.6	201.3	(0.6)	1,534.6	1,501.7	(2.1)
Vehicles	53.6	62.2	15.9	472.9	432.4	(8.6)
Telecommunication devices	16.1	18.7	15.6	132.3	151.9	14.8
Medical and pharmaceuticals	45.4	41.7	(8.2)	309.7	290.4	(6.2)
Clothing and accessories	29.2	22.4	(23.3)	201.2	221.2	10.0
Other non- food consumables	58.3	56.5	(3.1)	418.5	405.9	(3.0)
2. Intermediate goods	704.7	901.8	28.0	5,485.1	6,250.9	14.0
Fuel	142.3	215.9	51.7	1,320.2	1,840.4	39.4
o/w Crude oil	33.9	34.8	2.8	301.6	314.2	4.2
Refined petroleum	106.9	180.7	69.1	920.5	1,355.0	47.2
Coal	1.6	0.4	(78.1)	98.1	171.2	74.5
Diamonds, precious stones and metals	32.5	72.1	121.8	245.5	400.1	63.0
o/w Gold	22.1	62.4	182.0	167.7	337.4	101.2
Textiles and textile articles	198.0	236.9	19.7	1,544.7	1,543.9	(0.1)
Base metals	25.0	48.8	94.9	215.2	300.7	39.7
Wheat and maize	8.3	31.4	277.9	141.4	193.9	37.2
Food preparations	20.5	30.6	49.2	136.9	177.4	29.6
Fertiliser	3.8	10.6	182.0	78.6	49.7	(36.8)
Unmanufactured tobacco	4.2	4.7	12.0	37.0	31.7	(14.2)
Plastic and articles thereof	49.3	48.8	(1.1)	346.0	351.4	1.6
Mineral products	46.0	14.9	(67.6)	128.2	108.7	(15.2)
Other	174.7	187.1	7.1	1,291.4	1,252.9	(3.0)
3. Investment goods	403.1	351.9	(12.7)	2,829.9	2,799.0	(1.1)
Machinery and equipment	224.7	195.0	(13.2)	1,596.5	1,514.0	(5.2)
Building material	120.9	111.3	(8.0)	881.6	900.9	2.2
Transport equipment	57.0	45.1	(20.9)	347.9	378.9	8.9
Other investment goods	0.6	0.5	(1.1)	3.8	5.3	38.3
4. Unclassified imports	1.6	3.0	91.1	7.7	133.9	1,628.4
Total imports	1,432.8	1,591.1	11.1	10,753.8	11,742.2	9.2

Sources: Sri Lanka Customs
Ceylon Petroleum Corporation
Lanka IOC PLC
Central Bank of Sri Lanka

(a) Provisional

Figure 1: Export and Import Performance

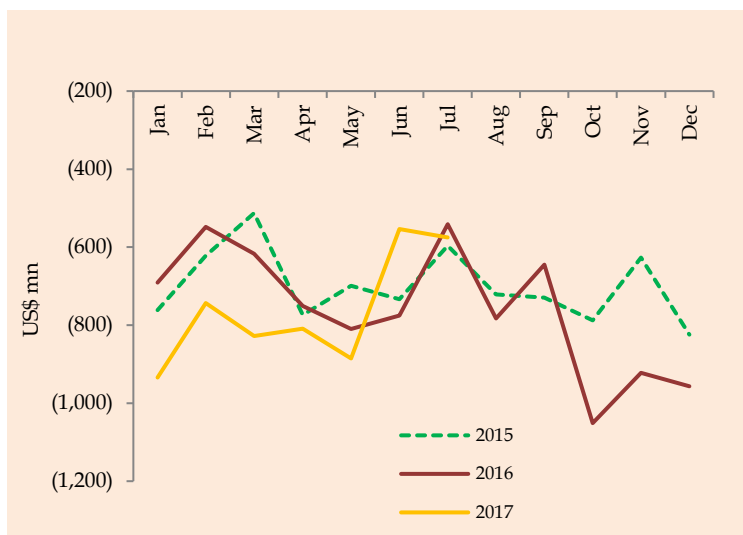


Sources: Central Bank of Sri Lanka
Sri Lanka Customs

Trade Balance

The deficit in the trade balance expanded to US dollars 575 million in July 2017 from US dollars 541 million in July 2016. Meanwhile, the cumulative trade deficit during the first seven months of 2017 widened to US dollars 5,329 million from US dollars 4,732 million in the corresponding period of 2016.

Figure 2: Monthly Trade Balance



Sources: Central Bank of Sri Lanka
Sri Lanka Customs

Earnings from Tourism

Tourist arrivals declined by 1.8 per cent, year-on-year, in July 2017, with 205,482 tourists arriving during the month. However, on a cumulative basis, tourist arrivals recorded an increase of 3.6 per cent to 1,215,926, during the first seven months of 2017 compared to the corresponding period of 2016. The top five sources of tourist arrivals during the first seven months of 2017 were India, China, the UK, Germany and France, accounting for 51.4 per cent of the total tourist arrivals during this period. Following the trend in tourist arrivals, earnings from tourism¹ also recorded a decline in July 2017. Accordingly, earnings from tourism amounted to US dollars 352.5 million during the month, while cumulative earnings from tourism increased to US dollars 2,086.1 million during the first seven months of the year compared to US dollars 2,013.5 million during the same period in 2016.

Workers' Remittances

Workers' remittances recorded a moderate growth of 3.4 per cent, year-on-year amounting to US dollars 592.1 million in July 2017,² reversing the trend that was observed during the last four months. However, the cumulative inflow from workers' remittances recorded a decline of 5.7 per cent to US dollars 3,946.7 million during the first seven months of 2017 in comparison to US dollars 4,185.9 million in the corresponding period of 2016.

Financial Flows

During the first seven months of the year, foreign investments in the CSE recorded a net inflow of US dollars 252.7 million, including net inflows of US dollars 169.3 million to the secondary market and inflows of US dollars 83.4 million to the primary market. Foreign investments in the government securities market continued to record net inflows, registering a net inflow of US dollars 134.6 million in July 2017. However, on

¹ This provisional estimate may be revised once the Sri Lanka Tourism Development Authority releases its survey results on average stay period and average spending per day estimates for 2017.

² Data for workers' remittances for July 2017 has been revised from previously published values in Weekly Economic Indicators of the CBSL due to revisions to data reported by Licensed Commercial Banks.

a cumulative basis, the government securities market experienced a net outflow of US dollars 18.4 million during the first seven months of 2017. Long term loans to the government including the proceeds of the syndicated loan, recorded a net inflow of US dollars 483.0 million during the first seven months of 2017, compared to a net inflow of US dollars 387.5 million during the corresponding period of 2016. In addition, Sri Lanka received the third tranche of the IMF-EFF programme amounting to US dollars 167.2 million during July 2017.

Overall BOP Position

During the first seven months of 2017, the overall balance of the Balance of Payments (BOP) is estimated to have recorded a surplus of US dollars 1,448.5 million in comparison to a surplus of US dollars 356.0 million recorded during the corresponding period of 2016.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end July 2017 amounted to US dollars 6.7 billion, equivalent to 3.9 months of imports, while total foreign assets amounted to US dollars 9.0 billion, equivalent to 5.3 months of imports.

The Sri Lankan rupee recorded a modest depreciation of 2.1 per cent against the US dollar during the period from end 2016 to 27 September 2017. Furthermore, reflecting cross currency movements, the rupee also depreciated against the euro by 12.5 per cent, the pound sterling by 10.6 per cent, the Japanese yen by 5.5 per cent, the Canadian dollar by 10.3 per cent, the Australian dollar by 10.1 per cent and the Indian rupee by 5.7 per cent during this period.

Table 3: Summary of External Sector Performance (a)

Category	July 2016 US\$ mn	July 2017 US\$ mn	Change (%)	Jan - Jul 2016 US\$ mn	Jan - Jul 2017 US\$ mn	Change (%)
Exports	891.5 (b)	1,015.9	13.9	6,021.8 (b)	6,413.4	6.5
Imports	1,432.8	1,591.1	11.1	10,753.8	11,742.2	9.2
Trade balance (net)	-541.3 (b)	-575.3	-	-4,732.0 (b)	-5,328.8	-
Earnings from tourism	359.2 (b)	352.5	-1.8	2,013.5 (b)	2,086.1	3.6
Workers' remittances (c)	572.8	592.1	3.4	4,185.9	3,946.7	-5.7
Inflows to the CSE (net) (d)	10.1	23.4	132.0	-30.8	252.7	
Inflows to the Government (e) of which,	2,186.8 (b)	269.6	-87.7	3,323.9(b)	3,651.8	
Treasury bills and bonds	308.4	203.9	-33.9	909.5	933.7	
International Sovereign Bonds	1,500.0	-	-	1,500.0	1,500.0	
Syndicated Loan	300.0	-	-	300.0	450.0	
Long term loans	377.3 (b)	65.7	-82.6	897.6(b)	1,198.4	
IMF - EFF Receipts	-	167.2	-	168.1	167.2	
Foreign Direct Investment (f)	-	-	-	293.0	711.2	

Sources: Sri Lanka Customs
Central Bank of Sri Lanka
Sri Lanka Tourism Development Authority
Colombo Stock Exchange
Board of Investment of Sri Lanka

- (a) Provisional
(b) Revised
(c) Data for workers' remittances for July 2017 has been revised from previously published values in Weekly Economic Indicators of the CBSL due to revisions to data reported by Licensed Commercial Banks.
(d) Include secondary and primary market transactions
(e) Inflows to the government include capital and current transfers to the government, inflows from the investments in Treasury bills and Treasury bonds by foreign investors, International Sovereign Bonds, Syndicated Loans and long-term loans of the government.
(f) Data available for the first six months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the Board of Investment of Sri Lanka and net direct investments to the CSE.