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Press Release

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External Sector Performance – August 2017

Overview

Sri Lanka's external sector showed a mixed performance in August 2017. Although export earnings increased in August 2017, higher growth in import expenditure resulted in an expansion of the trade deficit. Despite the increase in tourist earnings in August 2017, the decline in workers' remittances together with the expanded trade deficit dampened the performance of the external current account. However, the financial account of the Balance of Payments (BOP) was supported by the receipt of the second tranche of the foreign currency term financing facility to the government along with continued foreign inflows to the Colombo Stock Exchange (CSE) and the government securities market in August 2017.

Export Performance

Surpassing the US dollars 1 billion mark for the second consecutive month, earnings from exports increased in August 2017, indicating the positive impact of the restoration of the GSP+ facility. Accordingly, earnings from exports increased by 15.5

per cent (year-on-year) to US dollars 1,001 million in August 2017 mainly due to an increase in industrial exports followed by agricultural exports.

Earnings from industrial exports grew by 13.1 per cent (year-on-year) to US dollars 740 million in August 2017 owing to the increase in exports of textiles and garments. Export earnings from textiles and garments increased by 10.1 per cent (year-on-year) to US dollars 433 million with improved garment exports to the EU market. Accordingly, earnings from garments exports to the EU market increased by 12.2 per cent (year-on-year) to US dollars 186 million in August 2017 contributing more than 68 per cent to the growth of garment exports. Meanwhile, garment exports to the USA and non-traditional markets also grew by 4.4 per cent and 4.6 per cent (year-on-year), respectively, during the month. Further, earnings from the export of petroleum products increased significantly by 74.2 per cent (year-on-year) in August 2017, owing to higher export volumes and prices of bunker and aviation fuel. In addition, the export earnings from food, beverages and tobacco increased significantly by 35.8 per cent (year-on-year) to US dollars 35 million, due to increased exports of vegetable, fruit and nuts preparations. Meanwhile, export earnings from gems, diamonds and jewellery (23.6 per cent), machinery and mechanical appliances (14.0 per cent), and rubber products (4.1 per cent) increased during the month compared to the corresponding month of the previous year. However, export earnings from base metals and articles, printing industry products and transport equipment declined in August 2017.

Earnings from agricultural exports increased substantially by 22.8 per cent (year-on-year) to US dollars 255 million in August 2017 reflecting improved performance in almost all sub categories. Export earnings from tea increased significantly by 20.6 per cent (year-on-year) to US dollars 131 million, mainly due to higher prices in the international market despite the reduction in exported volumes. In line with higher tea prices in the international market, the average export price of tea increased by 22.3 per cent to US dollars 5.29 per kg in August 2017 from US dollars 4.33 per kg in August 2016. The volume of tea exports declined by 1.3 per cent to 24.8 million kgs in August 2017 from 25.1 million kgs in August 2016. Meanwhile, earnings from spices increased

considerably by 40.5 per cent (year-on-year) during the month, mainly due to the increased export volumes of pepper, cinnamon and cloves. Reflecting the positive impact of the removal of the ban on exports of fisheries products to the EU market and the restoration of the GSP+ facility, earnings from seafood exports increased considerably by 38.6 per cent (year-on-year) to US dollars 18 million in August 2017, with a 81.9 per cent year-on-year growth in exports to the EU market.

On a cumulative basis, earnings from exports grew by 7.6 per cent (year-on-year) to US dollars 7,413 million during the first eight months of 2017 mainly due to increased earnings received from exports of tea, petroleum products, transport equipment, 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.

The USA, the UK, India, Germany and Italy were the leading markets for merchandise exports of Sri Lanka during the first eight months of 2017, accounting for about 50 per cent of total exports.

Table 1: Export Earnings (a)

Category	August 2016 (b) (US\$ mn)	August 2017 (US\$ mn)	Change (%)	Jan - Aug 2016 (b) (US\$ mn)	Jan - Aug 2017 (US\$ mn)	Change (%)
1. Industrial exports	654.3	740.1	13.1	5,337.6	5,562.3	4.2
Textiles and garments	393.4	433.2	10.1	3,333.7	3,283.4	(1.5)
o/w Garments	372.8	402.3	7.9	3,155.1	3,088.1	(2.1)
Rubber products	68.2	71.0	4.1	508.4	538.1	5.8
Food, beverages and tobacco	25.6	34.8	35.8	222.4	259.1	16.5
Petroleum products	23.0	40.1	74.2	185.4	252.7	36.3
Machinery and mechanical appliances	28.6	32.7	14.0	200.2	242.1	20.9
Gems, diamonds and jewellery	20.7	25.6	23.6	187.3	166.7	(11.0)
Transport equipment	7.4	6.4	(13.4)	80.9	138.1	70.7
Base metals and articles	12.9	11.4	(11.7)	55.8	72.3	29.6
Plastics and articles thereof	6.4	5.8	(8.3)	46.0	47.2	2.6
Printing industry products	5.2	4.0	(22.6)	17.7	28.0	58.3
Other	62.9	75.1	19.5	499.8	534.5	6.9
2. Agricultural exports	208.0	255.4	22.8	1,520.6	1,815.0	19.4
Tea	108.9	131.3	20.6	835.0	1,002.7	20.1
Spices	35.7	50.2	40.5	194.1	248.7	28.1
Coconut	32.3	33.8	4.5	238.3	240.1	0.7
Seafood	13.0	18.0	38.6	110.7	155.4	40.4
Minor agricultural products	11.7	13.4	14.9	83.4	96.6	15.7
Rubber	2.3	2.6	15.3	20.9	28.7	37.4
Unmanufactured tobacco	2.2	3.5	58.1	19.9	23.5	18.0
Vegetables	1.9	2.5	30.8	18.3	19.5	6.6
3. Mineral and other	4.0	5.2	28.9	29.9	35.8	19.6
Total exports	866.3	1,000.6	15.5	6,888.1	7,413.1	7.6

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 by 12.6 per cent (year-on-year) to US dollars 1,857 million, recording the second highest import value so far during the year, owing to the higher expenditure incurred on intermediate goods, particularly fuel.

Expenditure on intermediate goods imports increased significantly by 23.9 per cent (year-on-year) to US dollars 1,021 million in August 2017, mainly due to the increase in expenditure on imports of fuel by 73.0 per cent (year-on-year) to US dollars 312 million. This was largely driven by the significant increase in refined petroleum imports by 110.9 per cent to US dollars 233 million. In addition, reflecting the impact of high crude oil prices in the international market, import expenditure on crude oil increased by 12.2 per cent despite a reduction in volume. Accordingly, average import price of crude oil was recorded at US dollars 53.07 per barrel in August 2017 compared to US dollar 46.71 per barrel recorded in August 2016. Further, expenditure on gold imports increased considerably by 50.0 per cent (year-on-year) to US dollars 65 million during the month, owing to higher volumes of gold imports while expenditure on base metals increased by 52.6 per cent (year-on-year). Expenditure on textiles and textile articles increased by 7.9 per cent (year-on-year) in August 2017 with higher expenditure incurred on the import of fabrics. Meanwhile, higher imports of chemical products, wheat and maize, and food preparations contributed largely towards the increase in intermediate goods imports during the month. However, import expenditure on mineral products and fertiliser declined by 54.8 per cent and 30.4 per cent, respectively, in August 2017 compared to the corresponding month of the previous year.

Meanwhile, expenditure on consumer goods imports remained broadly unchanged at US dollars 394 million in August 2017. However, expenditure on food and beverages grew by 3.7 per cent (year-on-year) in August 2017, mainly due to higher expenditure incurred on the importation of rice. Continuing the year-on-year increasing trend, expenditure on rice imports increased in August 2017 following the measures taken to fulfil the shortage of rice in the domestic market. Meanwhile, import expenditure on vegetables, dairy products and fruits increased during the month. In addition, import expenditure on household and furniture items and telecommunication devices categorised under nonfood consumer goods also increased in August 2017. However, import expenditure on rubber products, beverages and spices recorded a decline in August 2017.

Import expenditure on investment goods increased by 2.1 per cent (year-on-year) to US dollars 439 million in August 2017 reflecting higher imports of machinery and equipment, and building materials. Expenditure on machinery and equipment grew by 2.5 per cent during the month, with a surge in imports of printing machinery, telecommunication devices and air conditioning machines. Import expenditure on building materials increased by 6.8 per cent (year-on-year) during this period owing to higher imports of iron and steel, articles of iron and steel, and ceramic products. However, import expenditure on transport equipment decreased by 10.0 per cent (year-on-year) in August 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 9.6 per cent (year-on-year) to US dollars 13,599 million during the first eight 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 the origin of imports, India, China, the UAE, Singapore and Japan were the main import origins during the first eight months of 2017 accounting for about 59 per cent of total imports.

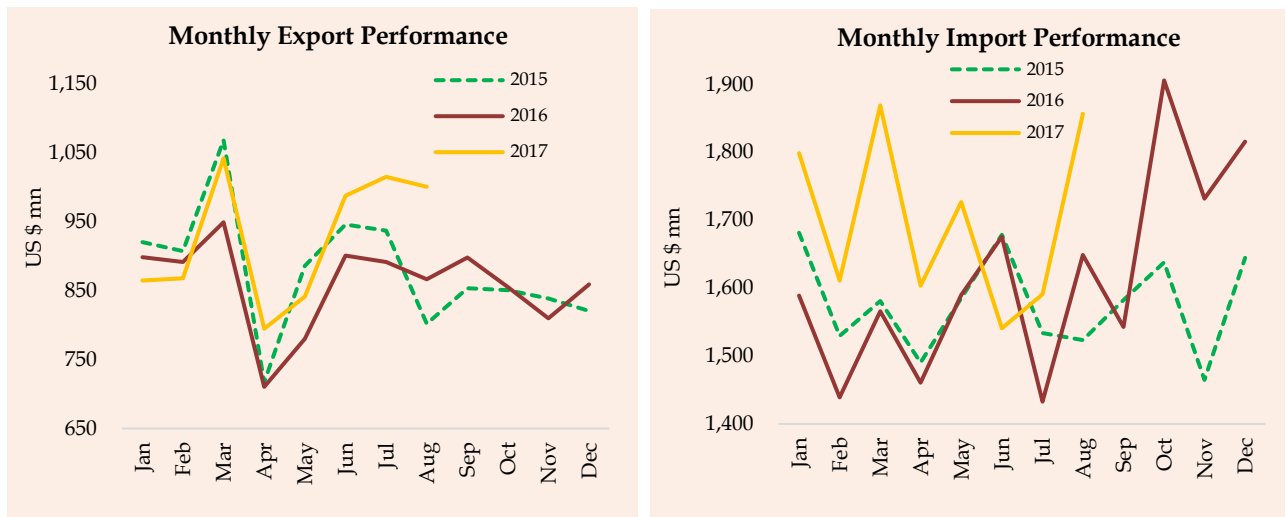
Table 2: Import Expenditure (a)

Category	August 2016 (US\$ mn)	August 2017 (US\$ mn)	Change (%)	Jan - Aug 2016 (US\$ mn)	Jan - Aug 2017 (US\$ mn)	Change (%)
1. Consumer goods	393.7	393.8	0.0	2,824.9	2,952.1	4.5
Food and beverages	142.6	147.9	3.7	1,039.1	1,204.5	15.9
Cereals and milling industry products	1.5	22.7	1,375.4	13.6	185.0	1,257.2
o/w Rice	0.8	21.3	2,494.8	7.2	176.4	2,346.4
Vegetables	23.7	32.7	38.3	251.7	235.7	(6.4)
Dairy products	18.1	22.9	26.9	157.1	202.9	29.2
Sugar and confectionery	39.7	19.1	(51.8)	195.9	188.8	(3.6)
Spices	13.6	8.0	(41.2)	90.4	64.3	(28.8)
Fruits	4.4	6.8	54.7	45.8	55.0	20.2
Beverages	13.7	6.9	(49.5)	63.1	54.2	(14.2)
Other food and beverages	27.8	28.6	2.8	221.5	218.7	(1.3)
Non-food consumer goods	251.1	245.9	(2.1)	1,785.8	1,747.6	(2.1)
Vehicles	74.1	72.6	(2.0)	547.1	505.0	(7.7)
Medical and pharmaceuticals	44.5	44.5	(0.0)	354.2	334.9	(5.4)
Telecommunication devices	19.4	23.1	18.9	151.8	175.0	15.3
Household and furniture items	15.3	20.7	35.4	115.6	119.3	3.3
Other non- food consumables	97.7	84.9	(13.1)	617.1	613.4	(0.6)
2. Intermediate goods	824.0	1,020.8	23.9	6,309.0	7,271.7	15.3
Fuel	180.6	312.5	73.0	1,500.8	2,152.8	43.4
o/w Crude oil	68.6	76.9	12.2	370.1	391.1	5.7
Refined petroleum	110.3	232.7	110.9	1,030.8	1,587.7	54.0
Coal	1.7	2.8	59.1	99.9	174.0	74.2
Diamonds, precious stones and metals	53.8	74.4	38.3	299.3	474.6	58.6
o/w Gold	43.6	65.4	50.0	211.3	402.7	90.6
Textiles and textile articles	220.0	237.4	7.9	1,764.7	1,781.3	0.9
Chemical products	66.5	74.9	12.8	568.1	549.9	(3.2)
Base metals	34.3	52.3	52.6	249.5	353.0	41.5
Wheat and maize	23.1	31.3	35.6	164.5	225.2	36.9
Food preparations	17.8	23.3	31.0	154.7	200.7	29.7
Agricultural inputs	16.6	20.2	21.6	116.8	129.6	10.9
Mineral products	28.5	12.9	(54.8)	156.7	121.6	(22.4)
Fertiliser	20.6	14.3	(30.4)	99.2	64.0	(35.4)
Other	162.2	167.4	3.2	1,234.8	1,219.1	(1.3)
3. Investment goods	429.7	438.7	2.1	3,259.6	3,237.7	(0.7)
Machinery and equipment	218.9	224.3	2.5	1,815.4	1,738.3	(4.2)
Building material	144.1	153.9	6.8	1,025.7	1,054.8	2.8
Transport equipment	66.3	59.7	(10.0)	414.3	438.6	5.9
Other investment Goods	0.3	0.8	129.7	4.1	6.0	45.8
4. Unclassified imports	1.7	3.6	112.1	9.4	137.5	1,358.3
Total imports	1,649.1	1,856.9	12.6	12,402.9	13,599.1	9.6

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

(a) Provisional

Figure 1: Export and Import Performance

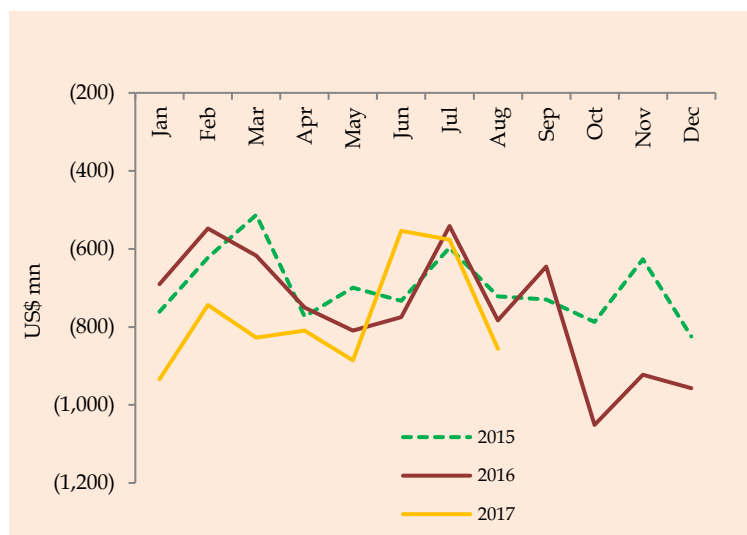


Sources: Central Bank of Sri Lanka
Sri Lanka Customs

Trade Balance

The deficit in the trade balance widened to US dollars 856 million in August 2017 from US dollars 783 million in August 2016. Meanwhile, the cumulative trade deficit during the first eight months of 2017 expanded to US dollars 6,186 million from US dollars 5,515 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 increased by 2.5 per cent, year-on-year, in August 2017, with 190,928 tourists arriving during the month. On a cumulative basis, tourist arrivals recorded an increase of 3.5 per cent to 1,406,854 during the first eight months of 2017 compared to the corresponding period of 2016. The top five sources of tourist arrivals during the first eight months of 2017 were India, China, the UK, Germany and France, accounting for 51.7 per cent of the total tourist arrivals during this period. Accordingly, earnings from tourism¹ amounted to US dollars 327.6 million during the month, while cumulative earnings from tourism increased to US dollars 2,413.7 million during the first eight months of the year compared to US dollars 2,333.1 million during the same period in 2016.

Workers' Remittances

Adverse economic and geopolitical conditions prevailing in the Middle Eastern region continued to have a negative impact on workers' remittances. Workers' remittances declined by 10.0 per cent to US dollars 556.6 million in August 2017 from US dollars 618.3 million in August 2016. Furthermore, the cumulative inflow from workers' remittances also declined by 6.3 per cent to US dollars 4,503.3 million during the first eight months of 2017, relative to the corresponding period of 2016.

Financial Flows

During the first eight months of the year, foreign investments in the CSE recorded a net inflow of US dollars 328.3 million, including net inflows of US dollars 180.7 million to the secondary market and inflows of US dollars 147.6 million to the primary market. Foreign investments in the government securities market continued to record inflows, registering a net inflow of US dollars 86.4 million in August 2017. On a cumulative basis, the government securities market experienced a net inflow of US dollars 68.0 million during the first eight months of 2017. Long term loans to the government including the proceeds of the foreign currency term financing facility, recorded a net

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.

inflow of US dollars 1,031.5 million during the first eight months of 2017, compared to a net inflow of US dollars 574.1 million during the corresponding period of 2016.

Overall Balance

During the first eight months of 2017, the overall balance of the BOP is estimated to have recorded a surplus of US dollars 2,174.9 million in comparison to a surplus of US dollars 211.5 million recorded during the corresponding period of 2016.

International Reserves and Exchange Rate Movements

Sri Lanka's gross official reserves as at end August 2017 amounted to US dollars 7.7 billion, equivalent to 4.5 months of imports, while total foreign assets amounted to US dollars 9.8 billion, equivalent to 5.7 months of imports.

The Sri Lankan rupee recorded a modest depreciation of 2.6 per cent against the US dollar during the period from end 2016 to 16 October 2017. Furthermore, reflecting cross currency movements, the rupee also depreciated against the euro by 13.0 per cent, the pound sterling by 9.9 per cent, the Japanese yen by 6.2 per cent, the Canadian dollar by 9.7 per cent, the Australian dollar by 10.4 per cent and the Indian rupee by 7.2 per cent during this period.

Table 3: Summary of External Sector Performance (a)

Category	August 2016 US\$ mn	August 2017 US\$ mn	Change (%)	Jan - Aug 2016 US\$ mn	Jan - Aug 2017 US\$ mn	Change (%)
Exports	866.3 (b)	1,000.6	15.5	6,888.1(b)	7,413.1	7.6
Imports	1,649.1	1,856.9	12.6	12,402.9	13,599.1	9.6
Trade balance (net)	-782.8 (b)	-856.3		-5,514.7(b)	-6,186.0	
Earnings from tourism	319.6	327.6	2.5	2,333.1	2,413.7	3.5
Workers' remittances	618.3	556.6	-10.0	4,804.1	4,503.3	-6.3
Inflows to the CSE (net) (c)	6.7	75.5	1,022.8	-24.1	328.3	
Inflows to the Government (d) of which,	366.6 (b)	760.2	107.3	3,673.6(b)	4,393.3	
Treasury bills and bonds	127.1	140.3	10.4	1,036.5	1,074.0	
International Sovereign Bonds	-	-	-	1,500.0	1,500.0	
Long term loans	239.5 (b)	619.8	158.8	1,137.1(b)	1,819.3	
Foreign currency term financing facility	-	550.0	-	300.0	1,000.0	
IMF - EFF Receipts	-	-	-	168.1	167.2	
Foreign Direct Investment (e)	-	-	-	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) Include secondary and primary market transactions
(d) 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.
(e) 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.