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Press Release

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External Sector Performance – September 2017

Overview

The external sector performance was driven by a double digit growth in exports (year-on-year) in September 2017, surpassing the US dollars 1 billion mark of monthly exports for the third consecutive month. However, the trade deficit expanded with higher imports of fuel and rice during the month. Earnings from tourism declined moderately during the month with a slightly lower number of tourist arrivals from key destinations compared to September 2016. The moderation in workers' remittances continued in September, resulting in a noteworthy decline in workers' remittances in the first nine months of 2017. However, reflecting continuous investor confidence, the financial account of the Balance of Payments (BOP) continued to strengthen during the month with higher foreign inflows to the Colombo Stock Exchange (CSE) and the government securities market. Subsequently, the overall balance recorded a surplus of US dollars 2.0 billion by end September 2017. Meanwhile, gross official reserves increased to US dollars 7.3 billion as at end September 2017 from US dollars 6.0 billion as at end 2016.

Table 1: Summary of External Sector Performance (a)

Category	September 2016 US\$ mn	September 2017 US\$ mn	Change (%)	Jan - Sep 2016 US\$ mn	Jan - Sep 2017 US\$ mn	Change (%)
Exports	898	1,011	12.6	7,786	8,424	8.2
Imports	1,508 (b)	1,667	10.5	13,911 (b)	15,264	9.7
Trade balance (net)	-610 (b)	-656	-	-6,125 (b)	-6,840	-
Earnings from tourism	255	249 (c)	-2.3	2,588	2,663 (c)	2.9
Workers' remittances	578	481	-16.7	5,382	4,985	-7.4
Inflows to the CSE (net) (d)	5	-62	-1,329.3	-19	266	
Inflows to the Government	609 (b)	298	-51.1	4,282 (b)	4,717	
Treasury bills and bonds	125	187	50.3	1,161	1,261	
International Sovereign Bonds	-	-	-	1,500	1,500	
Long term loans	84 (b)	111	32.1	921 (b)	956	
Foreign currency term financing facility	400	-	-	700	1,000	
IMF - EFF Receipts	-	-	-	168	167	
Foreign Direct Investment (e)	-	-	-	293	711	
Overall Balance	-	-	-	243	2,027	

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

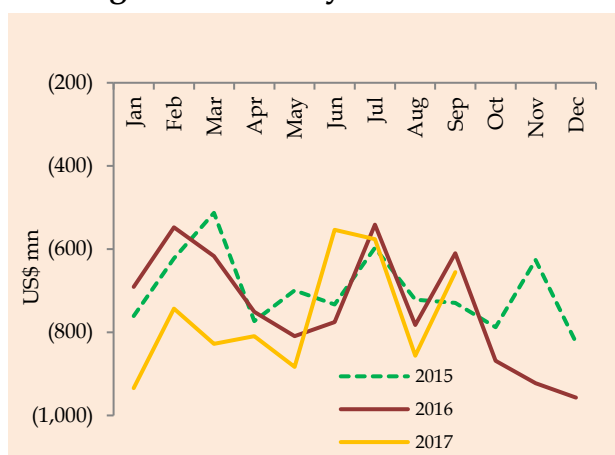
(c) This provisional estimate may be revised once the SLTDA releases its survey results for 2017

(d) Include secondary and primary market transactions

(e) 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 balance widened in September 2017 while the cumulative trade deficit during the first nine months of 2017 also expanded when compared with the corresponding period of the previous year. This was mainly due to the additional import expenditure incurred due to the prevailed drought condition in the country.

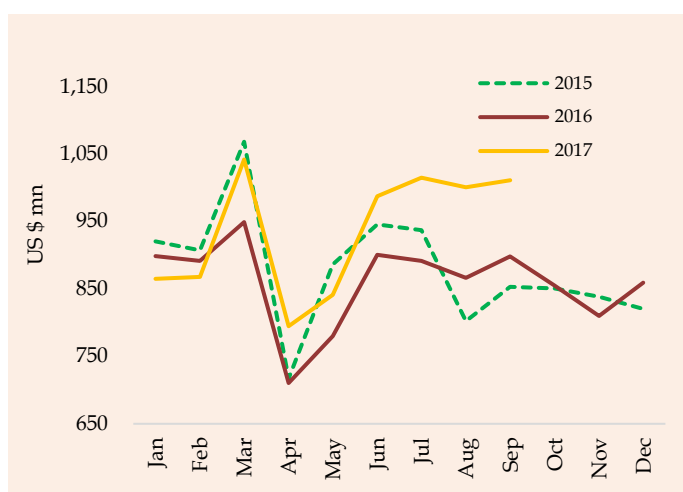
Figure 1: Monthly Trade Balance

Sources: SLC, CBSL

Export Performance

Earnings from exports which grew since March 2017 continued its increasing trend in September 2017 as well. This growth was mainly led by higher earnings from industrial exports owing to the increase in exports of textiles and garments as a result of improved garment exports to both the USA and EU market. Further, earnings from the export of petroleum products increased significantly owing to higher export volumes and prices of bunker and aviation fuel. In addition, earnings from rubber products rose reflecting higher earnings from rubber tyres and surgical and other gloves. Meanwhile, earnings from agricultural exports continued to increase in September 2017 from the beginning of the year. This was due to the improved performance in tea, owing to higher prices in the international market and a marginal growth in

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

export volumes. Earnings from spices also increased considerably due to higher export volumes of pepper, cloves and cinnamon. 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 with a 153 per cent year-on-year growth in exports to the EU market. However, earnings from transport equipment declined considerably in September 2017 vis-à-vis September 2016 reflecting the base effect of exportation of a cruise ship to Singapore in September 2016. The USA, the UK, India, Italy and Germany were the leading markets for merchandise exports of Sri Lanka in September 2017, accounting for about 51 per cent of total exports.

Table 2: Export Earnings (a)

Category	September 2016 (b) (US\$ mn)	September 2017 (US\$ mn)	Change (%)	Jan - Sep 2016 (b) (US\$ mn)	Jan - Sep 2017 (US\$ mn)	Change (%)
1. Industrial exports	669.9	744.5	11.1	6,007.5	6,306.8	5.0
Textiles and garments	382.2	431.5	12.9	3,715.8	3,715.0	(0.0)
o/w Garments	358.8	407.3	13.5	3,513.9	3,495.4	(0.5)
Rubber products	67.5	76.5	13.3	575.9	614.6	6.7
Petroleum products	19.0	40.2	111.1	204.4	292.8	43.3
Food, beverages and tobacco	30.7	37.2	21.2	253.1	296.3	17.1
Machinery and mechanical appliances	29.2	35.3	21.0	229.4	277.4	20.9
Gems, diamonds and jewellery	23.3	21.5	(7.4)	210.6	188.2	(10.6)
Leather, travel goods and footwear	14.2	13.4	(5.4)	129.9	120.4	(7.3)
Transport equipment	31.1	6.6	(78.7)	112.0	144.8	29.2
Ceramic products	3.6	3.1	(13.8)	26.3	25.2	(4.5)
Other	69.1	79.1	14.4	549.9	632.1	14.9
2. Agricultural exports	224.0	262.7	17.3	1,744.6	2,077.8	19.1
Tea	114.9	136.9	19.2	949.9	1,139.6	20.0
Spices	39.9	48.9	22.5	234.0	297.5	27.1
Coconut	37.2	33.0	(11.2)	275.5	273.1	(0.9)
Seafood	12.3	20.8	68.5	123.0	176.2	43.2
Minor agricultural products	10.5	14.3	36.6	93.9	110.9	18.1
Unmanufactured tobacco	4.4	3.2	(26.7)	24.3	26.7	9.9
Rubber	2.3	2.9	28.8	23.1	31.6	36.6
Vegetables	2.6	2.7	4.9	20.8	22.1	6.4
3. Mineral and other	4.1	3.8	(6.0)	34.0	39.6	16.6
Total exports	897.9	1,011.0	12.6	7,786.0	8,424.1	8.2

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

(a) Provisional

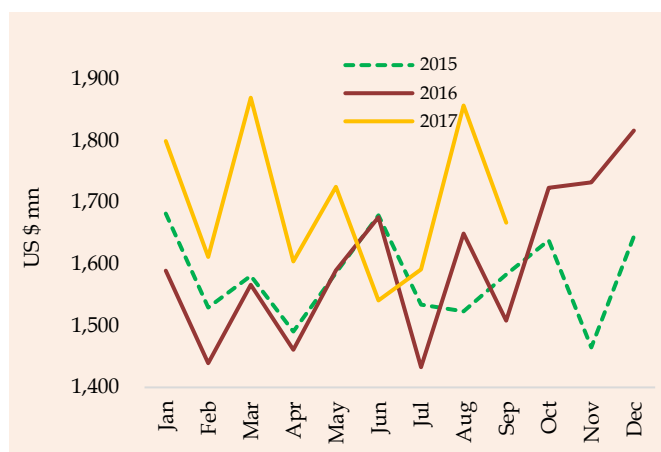
(b) Revised

Import Performance

Expenditure on imports increased in September 2017, recording a double-digit growth for the third consecutive month as a result of higher expenditure incurred on intermediate goods, particularly fuel. Expenditure on fuel imports increased significantly due to the combined effect of high prices in the international market and higher volumes of fuel imported for thermal

based power generation. Further, base metals led by iron and steel, mineral products led by cement clinkers and building materials led by cement imports increased notably reflecting higher demand by the construction sector. Meanwhile, expenditure on consumer goods imports declined owing to lower prices and volumes of sugar imports. However, following measures taken to fulfil the shortage of rice in the domestic market, expenditure on rice imports continued to increase in September 2017 adding around 497,889 metric tons so far during 2017 from 21,457 metric tons imported during the corresponding period of 2016. With regard to the origin of imports, India, China, Singapore, the UAE and Japan were the main import origins during September 2017 accounting for about 58 per cent of total imports.

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

Table 3: Import Expenditure (a)

Category	Sep 2016 (b) (US\$ mn)	Sep 2017 (US\$ mn)	Change (%)	Jan - Sep 2016 (b) (US\$ mn)	Jan - Sep 2017 (US\$ mn)	Change (%)
1. Consumer goods	374.8	328.9	(12.2)	3,199.7	3,279.0	2.5
Food and beverages	144.8	131.2	(9.4)	1,183.9	1,335.7	12.8
Cereals and milling industry products	1.8	23.1	1,186.3	15.4	208.0	1,248.9
o/w Rice	1.4	22.0	1,492.8	8.6	198.4	2,209.2
Vegetables	28.6	28.0	(2.1)	280.3	263.6	(5.9)
Dairy products	18.6	23.5	26.5	175.7	226.4	28.9
Seafood	20.3	18.3	(9.8)	179.6	166.1	(7.5)
Sugar and confectionery	38.7	10.7	(72.3)	234.6	199.5	(15.0)
Fruits	6.6	7.1	8.3	52.3	62.1	18.7
Spices	11.8	5.9	(50.0)	102.2	70.3	(31.2)
Other food and beverages	18.4	14.6	(21.1)	143.8	139.7	(2.9)
Non-food consumer goods	230.0	197.7	(14.0)	2,015.8	1,943.3	(3.6)
Vehicles	60.8	55.4	(8.9)	607.9	560.4	(7.8)
Telecommunication devices	21.0	22.4	6.3	172.8	197.4	14.2
Clothing and accessories	44.4	22.2	(50.1)	287.6	284.5	(1.1)
Printed materials and stationary	3.4	4.8	43.1	28.4	28.6	0.7
Other non- food consumables	100.4	93.0	(7.4)	919.1	872.5	(5.1)
2. Intermediate goods	775.6	949.4	22.4	7,084.6	8,221.2	16.0
Fuel	176.3	298.5	69.3	1,677.2	2,451.3	46.2
o/w Crude oil	34.3	79.9	133.0	404.4	471.0	16.5
Refined petroleum	132.2	218.4	65.2	1,163.0	1,806.1	55.3
Coal	9.9	0.3	(97.4)	109.7	174.2	58.8
Diamonds, precious stones and metals	44.4	40.2	(9.4)	343.7	514.8	49.8
o/w Gold	33.0	32.0	(3.1)	244.3	434.7	78.0
Base metals	40.3	66.2	64.0	289.8	419.2	44.6
Textiles and textile articles	221.5	217.3	(1.9)	1,986.2	1,998.5	0.6
Chemical products	60.2	63.4	5.3	628.2	613.3	(2.4)
Plastic and articles thereof	51.2	49.7	(2.8)	453.2	457.7	1.0
Mineral products	12.3	23.6	91.4	169.1	145.2	(14.1)
Rubber and articles thereof	18.1	23.2	28.5	211.5	216.3	2.3
Food preparations	14.6	22.3	53.0	169.3	223.0	31.7
Fertiliser	7.1	7.1	0.2	106.3	71.2	(33.0)
Other	129.5	137.9	6.5	1,050.1	1,110.7	5.8
3. Investment goods	357.5	385.9	7.9	3,617.1	3,623.6	0.2
Machinery and equipment	194.7	203.5	4.5	2,010.1	1,941.8	(3.4)
Building material	111.3	122.9	10.5	1,137.0	1,177.7	3.6
Transport equipment	51.1	59.2	15.8	465.4	497.8	7.0
Other investment Goods	0.4	0.3	(34.5)	4.5	6.3	38.9
4. Unclassified imports	0.4	2.4	574.0	9.8	139.9	1,329.9
Total imports	1,508.3	1,666.7	10.5	13,911.1	15,263.7	9.7

Sources: SLC, CPC, Lanka IOC PLC, CBSL

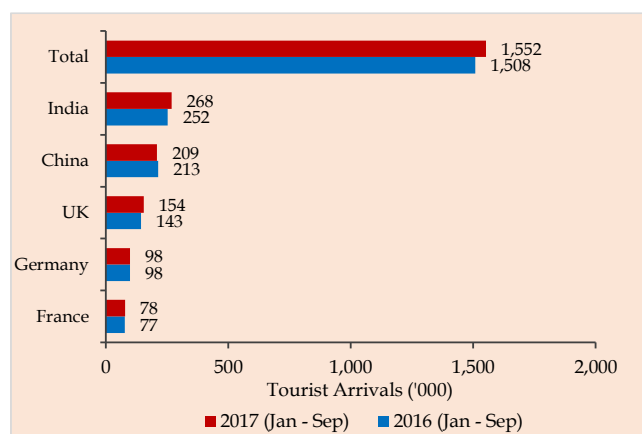
(a) Provisional

(b) Revised

Other Major Inflows to the Current Account

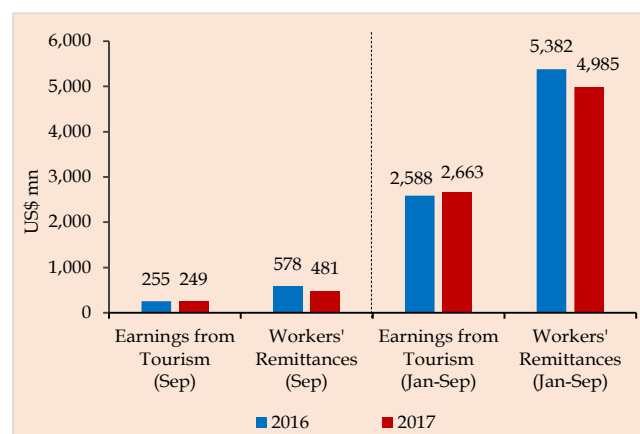
In September 2017, earnings from tourism recorded a decline in comparison to September 2016 owing to the drop in number of tourist arrivals during the month. The moderation in tourist arrivals was mainly attributed to the decline in the number of tourists from China, Maldives, Germany and Russia. However, on a cumulative basis, tourist arrivals and earnings from tourism increased during the first nine months of 2017 compared to the corresponding period in 2016. Meanwhile, slower growth in economic activities and adverse geopolitical conditions prevailing in the Middle Eastern region continued to have a negative impact on workers' remittances. As such, workers' remittances declined significantly in September 2017. Following the same trend, workers' remittances recorded a decline during the first nine months of 2017, in comparison to the corresponding period of 2016.

Figure 4: Top Five Sources of Tourist Arrivals



Source: SLTDA

Figure 5: Earnings from Tourism and Workers' Remittances



Sources: SLTDA, Commercial Banks, CBSL

Financial Flows

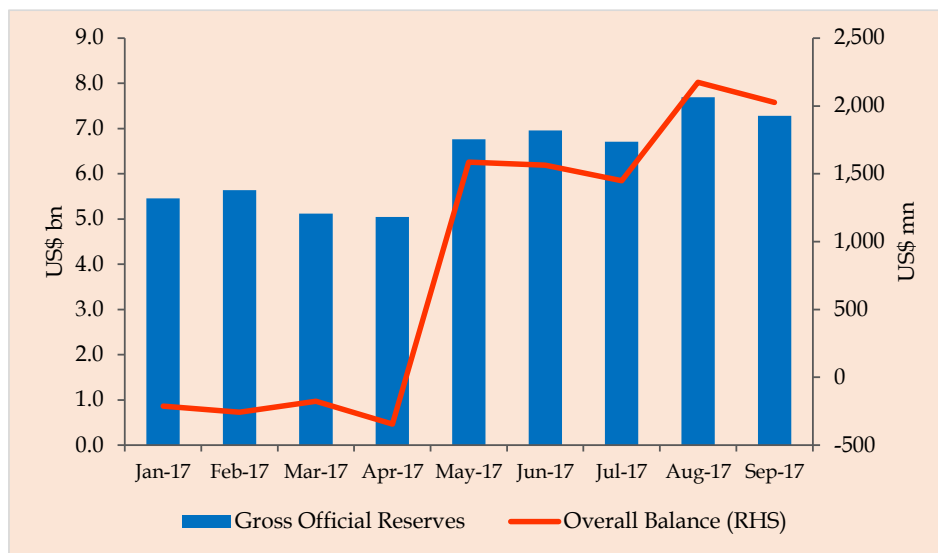
Despite the slower than expected improvement in the current account, the financial account of the BOP was strengthened during the month of September with continuous foreign inflows. Continuing the positive trend witnessed since March 2017, foreign investments to the government securities market recorded net inflows for the seventh consecutive month reflecting positive investor sentiment. In addition, long term loans

to the government increased on a net basis during the first nine months of the year. Meanwhile, foreign investments in the CSE recorded a net outflow (including both secondary and primary market foreign exchange flows) during the month of September, mainly due to a one-off transaction of a Sri Lankan conglomerate acquiring the foreign stake of a company operating in Sri Lanka. However, on a cumulative basis, foreign investments in the CSE recorded a substantially high net inflow during the first nine months of 2017 in comparison to the net outflow recorded during the corresponding period of 2016.

International Reserves

As at end September 2017, Sri Lanka’s gross official reserves increased to US dollars 7.3 billion, equivalent to 4.2 months of imports. Meanwhile, total foreign assets which include foreign assets of the banking sector, amounted to US dollars 9.6 billion, equivalent to 5.6 months of imports.

Figure 6: Gross Official Reserves and Overall Balance

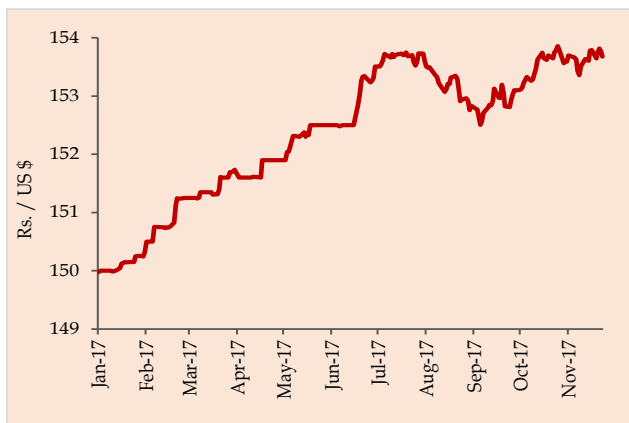


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee recorded a modest depreciation of 2.5 per cent against the US dollar during the year up to 24 November 2017. Furthermore, reflecting cross currency movements, the rupee also depreciated against other major currencies during this period.

Figure 7: Exchange Rate Movement Rupees per US\$



Source: CBSL

Table 4: Movement of Sri Lankan Rupee Against Other Currencies

Currency	Up to 24 November 2017 Appreciation (+)/ Depreciation (-)
US dollar	-2.5%
Euro	-13.3%
Pound sterling	-10.0%
Japanese yen	-6.8%
Canadian dollar	-8.0%
Australian dollar	-7.5%
Indian rupee	-7.3%

Source: CBSL