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Press Release

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External Sector Performance - October 2017

Overview

The external sector exhibited a significant improvement in October 2017, with a notable decline in the trade deficit and continued inflows to the financial account of the Balance of Payment (BOP). Higher export earnings, which recorded a double digit growth for the fourth consecutive month, and a deceleration in import expenditure resulted in a significant year-on-year decline in the trade deficit in October. However, earnings from tourism increased moderately, while workers' remittances further declined, owing to adverse economic and geopolitical conditions prevailing in the Middle Eastern region. Inflows to the financial account of the BOP continued during the month amidst increased foreign investments in the Colombo Stock Exchange (CSE) and the government securities market. Reflecting these developments, the BOP recorded an overall surplus of around US dollars 2.0 billion by end October 2017. Meanwhile, the level of gross official reserves increased to US dollars 7.5 billion at end October 2017, particularly with the absorption of foreign currency liquidity from the domestic foreign exchange market by the Central Bank.

Table 1: Summary of External Sector Performance (a)

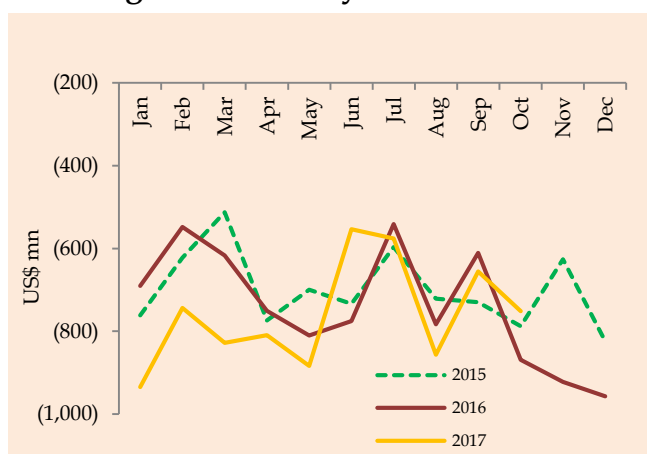
Category	October 2016 US\$ mn	October 2017 US\$ mn	Change (%)	Jan - Oct 2016 US\$ mn	Jan - Oct 2017 US\$ mn	Change (%)
Exports	855	976	14.1	8,641(b)	9,400	8.8
Imports	1,724 (b)	1,727	0.2	15,635 (b)	16,991	8.7
Trade balance (net)	-868 (b)	-752	-	-6,994 (b)	-7,591	-
Earnings from tourism	258	262 (c)	1.3	2,846	2,924 (c)	2.7
Workers' remittances	608	533	-12.2	5,990	5,518	-7.9
Inflows to the CSE (net) (d)	8	13	55.0	-11	279	
Inflows to the Government	129 (b)	319	148.2	4,411 (b)	5,046	
Treasury bills and bonds	43	142	229.4	1,204	1,403	
International Sovereign Bonds	-	-	-	1,500	1,500	
Long term loans	86 (b)	177	107.4	1,007 (b)	1,143	
Foreign currency term financing facility	-	-	-	700	1,000	
IMF - EFF Receipts	-	-	-	168	167	
Foreign Direct Investment (e)	-	-	-	397	766	
Overall Balance	-	-	-	-274	1,991	

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 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 contracted in October 2017 in comparison to the corresponding period of the previous year mainly due to the healthy performance in export earnings. However, the cumulative trade deficit expanded at a moderate rate during the first ten months of 2017.

Figure 1: Monthly Trade Balance

Sources: SLC, CBSL

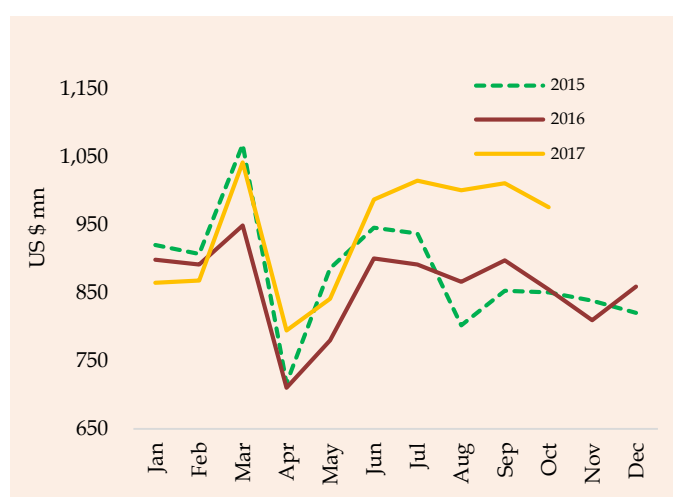
Export Performance

Maintaining the growth momentum, earnings from exports increased further registering a double-digit growth in October 2017. This was mainly due to higher earnings from industrial exports reflecting the increase in garment exports to the USA and the EU market. Garment exports to the USA increased by 14.7 per cent, in October 2017 while those to the EU increased by 8.0 per cent with the benefit of GSP+ facility taking effect reflecting increased demand for garments. With the healthy performance registered in vegetable, fruit and

nuts preparations, earnings from food, beverages and tobacco increased during the month. Further, earnings from rubber products rose mainly due to higher earnings from export of rubber tyres. Export earnings from petroleum products also increased significantly owing to higher export volumes and prices

of bunker and aviation fuel. Meanwhile, earnings from agricultural exports continued to increase in October 2017 as well. An impressive growth in tea exports, with a 13.3 per cent increase in the average tea export price and 11.3 per cent growth in the export volume, mainly contributed to higher earnings in agricultural exports. Earnings from spices increased with higher volumes and prices of 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 145 per cent, year-on-year, growth in exports to the EU market. However, earnings from coconut declined in October 2017 compared to October 2016 mainly due to lower domestic supply of all kernel categories. In October 2017, the USA, the UK, India, Italy and Germany were the leading markets for merchandise exports of Sri Lanka accounting for about 51 per cent of total exports.

Figure 2: Monthly Export Performance



Sources: SLC, CBSL

Table 2: Export Earnings (a)

Category	Oct. 2016 (US\$ mn)	Oct. 2017 (US\$ mn)	Change (%)	Jan - Oct 2016 (US\$ mn) (b)	Jan - Oct 2017 (US\$ mn)	Change (%)
1. Industrial exports	654.0	725.0	10.9	6,661.4	7,031.8	5.6
Textiles and garments	391.6	422.6	7.9	4,107.5	4,137.6	0.7
o/w Garments	363.5	399.7	10.0	3,877.3	3,895.2	0.5
Rubber products	68.3	78.8	15.4	644.3	693.5	7.6
Food, beverages and tobacco	23.7	35.1	48.2	276.8	331.4	19.7
Machinery and mechanical appliances	36.3	35.1	(3.5)	265.7	312.5	17.6
Petroleum products	27.2	34.9	28.4	231.6	327.8	41.5
Gems, diamonds and jewellery	25.7	25.8	0.5	236.2	214.0	(9.4)
Leather, travel goods and footwear	10.7	11.0	2.4	140.6	131.4	(6.6)
Base metals and articles	8.9	8.5	(3.9)	76.2	93.9	23.3
Transport equipment	5.2	6.3	21.0	117.2	151.0	28.9
Animal fodder	6.5	5.8	(10.3)	54.5	62.2	14.2
Printing industry products	0.6	3.7	573.5	18.6	37.9	103.5
Ceramics products	3.1	3.0	(4.5)	29.5	28.1	(4.5)
Other	46.1	54.4	17.9	462.7	510.5	10.3
2. Agricultural exports	197.8	245.6	24.2	1,942.3	2,323.4	19.6
Tea	108.1	136.2	26.1	1,057.9	1,275.9	20.6
Spices	28.7	42.4	47.9	262.7	339.9	29.4
Coconut	33.0	30.1	(8.7)	308.5	303.3	(1.7)
Seafood	13.3	20.2	51.5	136.3	196.3	44.0
Minor agricultural products	7.9	9.4	19.9	101.8	120.4	18.2
Unmanufactured tobacco	1.9	2.9	52.2	26.2	29.6	13.0
Vegetables	1.9	2.5	33.4	22.7	24.6	8.6
Rubber	3.0	1.8	(41.3)	26.2	33.4	27.5
3. Mineral and other	3.3	4.9	48.0	37.3	44.5	19.4
Total exports	855.0	975.6	14.1	8,641.1	9,399.7	8.8

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

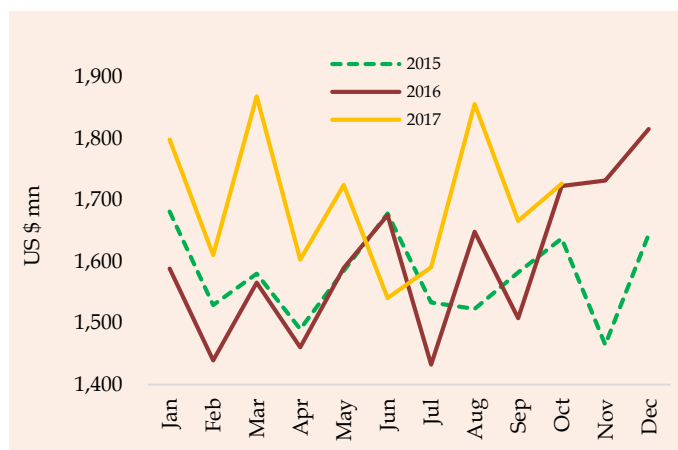
(a) Provisional

(b) Revised

Import Performance

Expenditure on imports decelerated in October 2017 mainly due to the decline in expenditure on sugar imports owing to lower prices as well as lower volumes. Comparatively high imports in October 2016 also impacted on the year-on-year growth of sugar imports. Fuel imports declined as a result of low crude oil imports in volumes despite an increase in prices. Import expenditure on investment goods declined due to lower imports of machinery and equipment led by telecommunication devices and transport equipment. There was also a decline in imports of auto trishaws and lorries. Expenditure on construction sector related imports showed a mixed performance as building materials led by cement imports declined, while imports of iron and steel of both finished and raw forms as well as cement clinkers increased in October 2017. However, continuing the higher increase observed since January 2017 in view of measures taken to fulfil the shortage of rice in the domestic market, volume of rice imports increased by 2,433.6 per cent in October 2017 on a year-on-year basis. Increased clothing and footwear imports mainly contributed to the growth in imports of clothing and accessories. India, China, UAE, Singapore and Japan were the main import origins accounting for about 59 per cent of total imports in October 2017.

Figure 3: Monthly Import Performance



Sources: SLC, CBSL

Table 3: Import Expenditure (a)

Category	Oct 2016 (US\$ mn) (b)	Oct 2017 (US\$ mn)	Change (%)	Jan - Oct 2016 (US\$ mn) (b)	Jan - Oct 2017 (US\$ mn)	Change (%)
1. Consumer goods	377.2	382.2	1.3	3,576.8	3,661.2	2.4
Food and beverages	159.8	148.9	(6.8)	1,343.7	1,484.6	10.5
Cereals and milling industry products	2.4	37.8	1,465.9	17.8	245.9	1,278.3
o/w Rice	1.6	36.5	2,164.3	10.2	234.9	2,202.1
Vegetables	22.3	24.4	9.5	302.6	288.0	(4.8)
Dairy products	20.9	23.9	14.6	196.5	250.3	27.4
Sugar and confectionery	57.3	14.2	(75.1)	291.9	213.7	(26.8)
Spices	11.9	7.7	(35.3)	114.1	78.0	(31.7)
Beverages	9.9	6.6	(33.0)	82.4	67.1	(18.6)
Oils and fats	2.8	3.1	10.3	30.5	37.5	23.0
Other food and beverages	32.3	31.1	(3.7)	307.9	304.2	(1.2)
Non-food consumer goods	217.4	233.3	7.3	2,233.1	2,176.6	(2.5)
Vehicles	64.6	54.8	(15.2)	672.5	615.2	(8.5)
Medical and pharmaceuticals	43.5	48.7	12.1	437.0	423.3	(3.1)
Clothing and accessories	22.5	34.6	53.9	310.1	319.1	2.9
Cosmetics and toiletries	7.3	5.5	(25.0)	73.4	65.5	(10.8)
Other non- food consumables	79.4	89.6	12.8	740.1	753.5	1.8
2. Intermediate goods	899.0	948.4	5.5	7,983.6	9,169.6	14.9
Fuel	253.7	236.9	(6.6)	1,930.9	2,688.2	39.2
o/w Crude oil	75.0	41.6	(44.5)	479.4	512.6	6.9
Refined petroleum	164.2	176.1	7.3	1,327.2	1,982.2	49.4
Coal	14.6	19.2	31.5	124.3	193.4	55.6
Diamonds, precious stones and metals	68.7	79.5	15.7	412.4	594.3	44.1
o/w Gold	56.6	63.3	11.8	300.9	498.0	65.5
Textiles and textile articles	232.4	242.1	4.2	2,218.7	2,240.6	1.0
Chemical products	74.4	76.7	3.1	702.6	690.0	(1.8)
Plastic and articles thereof	55.0	58.4	6.3	508.1	516.1	1.6
Paper and paperboard & articles thereof	36.2	46.1	27.2	399.8	399.7	(0.0)
Base metals	37.0	43.4	17.3	326.8	462.6	41.5
Wheat and maize	19.2	31.1	62.4	221.7	295.7	33.4
Rubber and articles thereof	30.0	24.3	(19.1)	241.6	240.6	(0.4)
Food preparations	21.6	22.8	5.4	190.9	245.8	28.7
Fertiliser	5.4	10.6	95.7	111.7	81.8	(26.8)
Other	65.3	76.4	17.1	718.3	714.3	(0.6)
3. Investment goods	446.0	392.5	(12.0)	4,063.1	4,016.2	(1.2)
Machinery and equipment	235.6	205.6	(12.7)	2,245.7	2,147.4	(4.4)
Building materials	134.1	125.2	(6.7)	1,271.1	1,302.9	2.5
Transport equipment	75.9	61.2	(19.4)	541.3	559.0	3.3
Other investment goods	0.5	0.5	16.0	5.0	6.8	36.8
4. Unclassified imports	1.3	4.1	202.5	11.1	143.9	1,193.6
Total imports	1,723.5	1,727.2	0.2	15,634.7	16,990.9	8.7

Sources: SLC, CPC, Lanka IOC PLC, CBSL

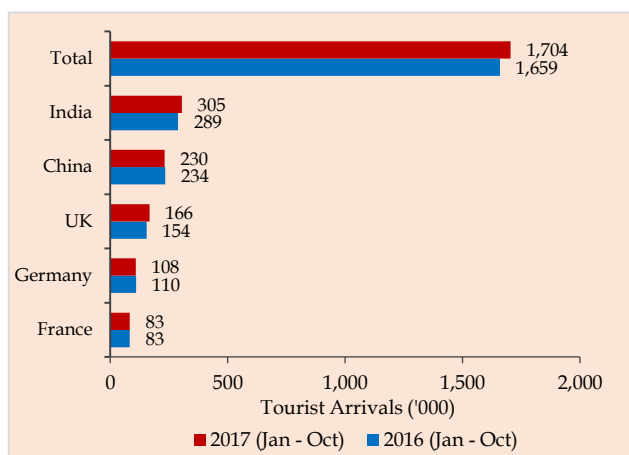
(a) Provisional

(b) Revised

Other Major Inflows to the Current Account

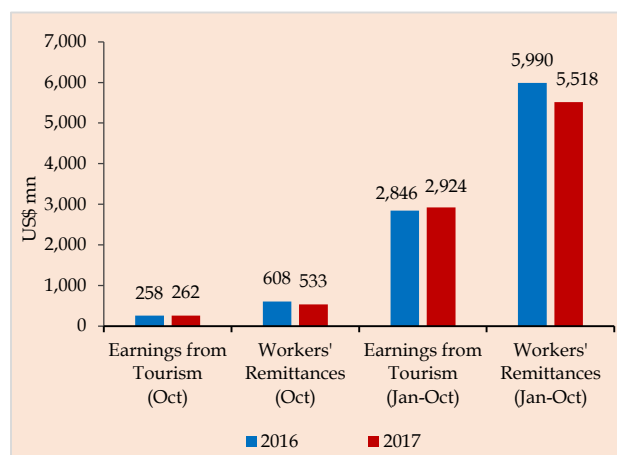
In October 2017, tourist arrivals recorded a marginal increase in comparison to October 2016, while earnings from tourism also increased marginally during the month. The top five sources of tourist arrivals, namely; India, China, the UK, Germany and France accounted for 52.4 per cent of total tourist arrivals up to end October 2017. On a cumulative basis, tourist arrivals and earnings from tourism increased during the first ten months of 2017 compared to the corresponding period of 2016. Meanwhile, workers' remittances continued to decline significantly by 12.2 per cent during October 2017, as a result of adverse economic and geopolitical conditions prevailing in the Middle Eastern region. Accordingly, workers' remittances declined by 7.9 per cent (year-on-year) on a cumulative basis during the year up to end October 2017.

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

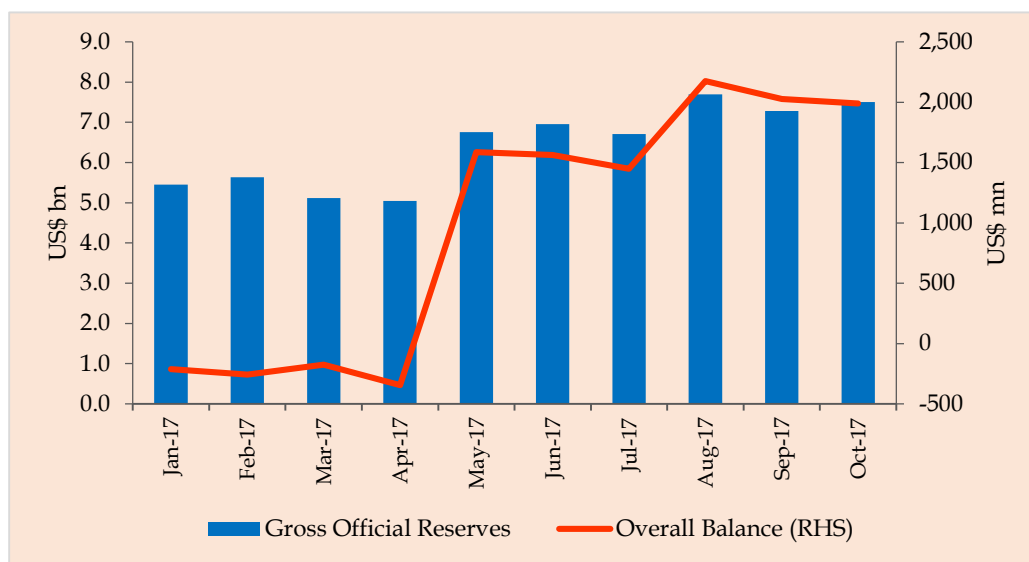
The financial account of the BOP continued to strengthen during the month of October 2017. Reflecting positive investor sentiment, the CSE marked a substantial net inflow (including both secondary and primary market foreign exchange flows) in October 2017 and during the first ten months in comparison to the net outflow recorded during the corresponding period in 2016. Foreign investments to the government securities market witnessed net inflows for the eighth consecutive month. Meanwhile, long term

loans to the government increased on a net basis during the first ten months of the year.

International Reserves

Sri Lanka’s gross official reserves increased from US dollars 6.0 billion recorded as at end 2016 to US dollars 7.5 billion by end October 2017 sufficient to finance 4.4 months of imports. The increase in gross official reserve position as at end October 2017 was primarily due to the absorption of foreign exchange from the domestic foreign exchange market and the receipts of the Asian Clearing Union (ACU) during the month. Meanwhile, total foreign assets which include foreign assets of the banking sector, amounted to US dollars 9.8 billion, equivalent to 5.7 months of imports.

Figure 6: Gross Official Reserves and Overall Balance



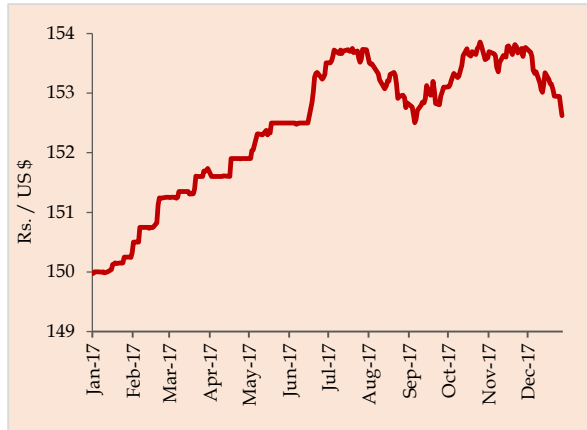
Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee recorded a modest depreciation of 1.9 per cent against the US dollar during the year up to 28 December 2017 in comparison to the depreciation of 3.8 per cent recorded during the year 2016. 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 28 December 2017 Appreciation (+) / Depreciation (-)
US dollar	-1.9%
Euro	-13.1%
Pound sterling	-10.1%
Japanese yen	-4.6%
Canadian dollar	-8.0%
Australian dollar	-8.7%
Indian rupee	-7.4%

Source: CBSL