5

EXTERNAL SECTOR DEVELOPMENTS AND POLICIES

5.1 Overview

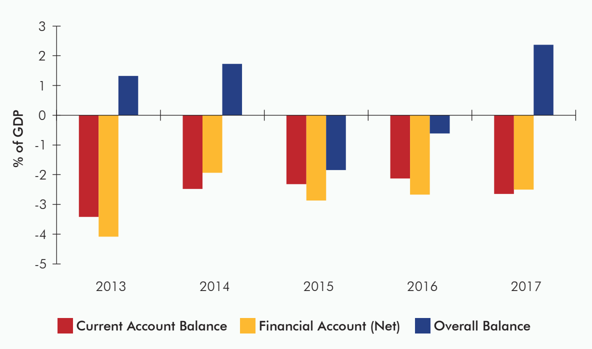
Sri Lanka's external sector improved gradually during 2017, as the pressure on the Balance of Payments (BOP) eased with higher inflows to the financial account in tandem with better domestic and external conditions. Although the external current account experienced a setback during the year, enhanced investor confidence and improved stability in domestic macroeconomic conditions helped in attracting a substantially higher amount of foreign currency inflows to the financial account. The current account deficit widened during the year due to the significant improvement in export of merchandise goods being outpaced by the increase in imports together with higher interest payments, the moderation in tourist earnings and the decline in workers' remittances. However, the influx of foreign exchange to the financial account by way of Foreign Direct Investment (FDI), investment in the government securities market and the Colombo Stock Exchange (CSE) as well as other inflows to the government and the private sector helped offset the current account deficit while contributing to replenish the level of gross official reserves and facilitate the maintenance of a more market based exchange rate policy.

The current account deficit, which was 2.1 per cent of GDP in 2016, expanded to 2.6 per cent of GDP in 2017, triggered by the widened trade and primary income deficits, moderate earnings from tourism and lower workers' remittances. Although 2017 marked the highest ever export earnings with a double-digit growth, the trade deficit expanded to 11.0 per cent of GDP in 2017 from 10.9 per cent of GDP in 2016 due to increased imports of fuel, rice and gold, in particular. While exports rose, supported by the synchronised growth in advanced countries, reinstatement of the European Union's Generalised System of Preferences plus (EU-GSP+) facility and the strong institutional and policy support, the surge *in imports was largely due to weather related conditions with rice imports filling the void in domestic production and fuel imports in place of the loss in hydro power generation. The growth in tourist earnings moderated while workers' remittances recorded a decline in 2017, thus, weighing negatively on the current account. Tourism sector recorded a setback during the year following the partial closure of the airport for resurfacing of the runway as well as the breakout of the dengue epidemic, moderating the growth in overall export of services in 2017. The decline in workers' remittances in 2017, was partly due to the sluggish economic activity in the Middle Eastern region and the reduction in labour migration under all skilled categories.*

On the contrary, the financial account of the BOP, which was under pressure during the first quarter of 2017 due to higher foreign exchange outflows, improved substantially thereafter. In 2017, Sri Lanka witnessed a significant increase in FDI, surpassing the annual quantum hitherto recorded in the country. The notable increase observed in foreign investment in the government securities market and the CSE, particularly during the last three quarters of the year, positively impacted the financial account of the BOP. Additionally, the financial account was enhanced by the proceeds of the eleventh International Sovereign Bond (ISB), the foreign currency term financing facility, the receipt of two tranches of the International Monetary Fund Extended Fund Facility (IMF EFF) and other foreign currency inflows to the government and the private sector. These improvements in the financial account were reflected in the overall performance of the BOP, which recorded a significant surplus of US dollars 2.1 billion in 2017, following two consecutive years of deficits.

During the year, the exchange rate policy of the Central Bank was aimed at accommodating greater flexibility in the determination of the external value of the rupee based on the supply of and demand for foreign exchange. The Central Bank supplied a substantial amount of foreign exchange liquidity to the domestic foreign exchange market during the first quarter of the year. This was in response to the depreciation pressure on the rupee amidst the shortage of foreign exchange liquidity in the market, arising from outflows from the government securities market. Consequently, the Central Bank changed its intervention strategy since then to one of absorption with purchases of foreign exchange from the market to build up international reserves. This move helped the Central Bank to increase the quantum of non-borrowed reserves, while enhancing the level of gross official reserves of the country to US dollars 8.0 billion at end-2017, which was equivalent to 4.6 months of imports. Moreover, this strategy facilitated to smooth out the behaviour of the exchange rate, thus preventing sharp fluctuations. Reflecting these developments, the external value of the Sri Lankan rupee remained relatively stable, depreciating only by 2.0 per cent against the US dollar in 2017. The Real Effective Exchange Rate (REER) indices also depreciated, getting closer to

Chart 5.1
Balance of Payments



Source : Central Bank of Sri Lanka

the 100-index point mark by end-2017, indicating an improvement in the external competitiveness of the country.

Although the external sector gathered some positive momentum during 2017, the build-up of external buffers through an adjustment in the current account with an improved trade balance and higher foreign investment, is vital for reducing the country's vulnerability to external shocks. Implementation of a comprehensive export strategy remains a policy priority, as improvement in the external current account broadly depends on the narrowing down of the trade deficit. Accordingly, diversifying merchandise exports and improving productivity, aiming to be cost effective while focusing on new export destinations, will be important in boosting export earnings. Policy focus should also be directed towards harnessing the untapped potential of the country as a services exporter, to benefit from the skilled human resource base. Reducing the dependence on foreign borrowings to finance the current account deficit and building up of the stock of international reserves, through long term inflows such as FDI is of utmost importance, especially in the context of the bunching of debt service payments during 2019-2023. Some progress has been made, with actions such as earmarking the proceeds from commercialising non-strategic public assets to address future debt service payments, the enactment of the Active Liability Management Act and the preparation of a Medium-Term Debt Strategy for 2019-2023. High priority must be attached to expediting the implementation of these measures. This is essential for streamlining external debt management. Implementing a multi-pronged policy initiative is crucial in addressing chronic issues in the external sector in order for the economy to be more resilient to shocks arising from the rest of the world.

Table 5.1
Balance of Payments Analytical Presentation

Item	US$ million		Rs. million	
	2016 (a)	2017 (b)	2016 (a)	2017 (b)
Current Account (net)	-1,742	-2,309	-254,159	-350,695
Trade Balance	-8,873	-9,619	-1,293,627	-1,466,133
Exports	10,310	11,360	1,500,766	1,732,440
Imports	19,183	20,980	2,794,393	3,198,572
Services (net)	2,879	3,338	419,338	508,790
Receipts	7,138	7,760	1,039,283	1,182,738
Payments	4,259	4,421	619,945	673,949
Primary Income (net)	-2,202	-2,355	-319,652	-357,668
Receipts	127	160	18,499	24,414
Payments	2,329	2,515	338,151	382,082
Secondary Income (net)	6,453	6,327	939,782	964,316
Secondary income: credit	7,260	7,175	1,057,281	1,093,607
Workers' remittances	7,242	7,164	1,054,489	1,091,972
Government transfers	19	11	2,792	1,634
Secondary income: debit	807	848	117,498	129,291
Capital Account (net)	25	11	3,745	1,667
Capital account: credit	56	40	8,269	6,125
Capital account: debit	31	29	4,525	4,458
Current and Capital Account (net)	-1,717	-2,298	-250,414	-349,028
Financial Account (net)	-2,182	-2,184	-317,181	-336,145
Direct Investment: Assets	237	72	34,476	8,162
Direct Investment: Liabilities	897	1,375	131,839	210,361
Portfolio Investment: Assets	...	...	-1	-12
Debt securities	...	...	-1	-12
Portfolio Investment: Liabilities	993	1,772	144,665	271,168
Equity	24	359	3,684	54,606
Debt securities	969	1,413	140,981	216,562
Financial Derivatives	-	-	-	-
Other Investment: Assets	266	102	38,245	16,297
Currency and deposits	5	78	538	12,094
Trade credit and advances	-118	54	-17,114	8,322
Other accounts receivable	379	-31	54,821	-4,119
Other Investment: Liabilities	323	1,981	47,806	303,543
Currency and deposits	-609	-228	-87,671	-33,698
Loans	793	1,839	114,419	280,407
Central Bank	-123	184	-17,234	28,630
Deposit-taking corporations	-507	271	-75,495	40,156
General government	1,287	1,215	188,365	185,577
Other sectors	136	170	18,783	26,044
Trade credit and advances	84	309	12,466	47,019
Other accounts payable	55	61	8,592	9,815
Special Drawing Rights (SDRs)	-	-	-	-
Reserve Assets	-472	2,771	-65,593	424,480
Monetary gold	-	-	-	-
Special Drawing Rights	-5	2	-685	354
Reserve position in the IMF	-	-	-	-
Other reserve assets	-467	2,768	-64,907	424,126
Currency and deposits	-1,267	393	-183,495	60,087
Securities	800	2,375	118,582	364,025
Net Errors and Omissions	-465	114	-66,767	12,883
Overall Balance (c)	-500	2,068	-46,013	330,004
As a Percentage of GDP				
Trade Balance	-10.9	-11.0		
Goods and Services	-7.3	-7.2		
Current Account	-2.1	-2.6		
Current and Capital Account	-2.1	-2.6		

(a) Revised
(b) Provisional
(c) Refer Table 5.12 for the derivation of overall balance.

Source: Central Bank of Sri Lanka

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5.2 External Trade Policies, Developments and Institutional Support

Efforts made by the government towards greater integration with global markets, redesigning of a more comprehensive trade policy framework to promote and facilitate external trade and measures taken towards streamlining and enhancing institutional support for trade facilitation were significant in transforming the external trade policy environment in 2017. The EU-GSP+, which provides duty free access for about 7,200 tariff lines to the EU, was reinstated in May 2017. Introduction of a more comprehensive Trade Policy and the finalisation of negotiations of the Free Trade Agreement (FTA) with Singapore were also among the favourable developments. In addition, regional integration is expected to strengthen further through trade and partnership agreements with China and India, which are currently under negotiation. In parallel with the negotiation of the trade agreements, measures have been taken to mitigate potential negative effects that can emerge with liberalisation. The Anti-Dumping and Countervailing Duties Act has been passed by Parliament. In addition, Safeguard Measures have been introduced to address import surges. A Trade Adjustment Package is also being worked out with the assistance of the World Bank, EU and International Trade Centre (ITC) to support local enterprises. Meanwhile, initiatives were also taken towards the formulation of a more comprehensive National Export Strategy (NES). Following extensive stakeholder consultations, six focus sectors and four trade supporting functions have been identified in the NES, which is yet to be approved by the Cabinet of Ministers. Further, designing of trade facilitation initiatives as per the Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO), such as National Single Window (NSW) and Trade Information Portal (TIP), also commenced during 2017.

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Table 5.2
Exports under Preferential Trade Agreements of Sri Lanka

Preferential Agreement	2016	2017 (a)		
	Value (US$ million)	Value (US$ million)	Growth (%)	Share (%)
Generalised System of Preferences (GSP)	3,346.0	3,851.2	15.1	83.1
o/w EU (including GSP+) (b)	2,243.5	2,473.9	10.3	53.4
USA	608.5	782.1	28.5	16.9
Russian Federation (c)	160.3	188.3	17.5	4.1
Japan	83.5	96.4	15.4	2.1
Canada	60.1	90.5	50.6	2.0
Australia	60.9	81.4	33.7	1.8
Turkey	60.2	79.8	32.5	1.7
India-Sri Lanka Free Trade Agreement (ISLFTA)	375.3	442.3	17.9	9.5
Asia-Pacific Trade Agreement (APTA)	126.0	151.1	19.9	3.3
Global System of Trade Preferences (GSTP)	45.1	81.2	79.9	1.8
Pakistan-Sri Lanka Free Trade Agreement (PSFTA)	51.6	60.3	16.9	1.3
South Asian Free Trade Area (SAFTA)	7.5	41.1	446.2	0.9
South Asian Preferential Trading Arrangement (SAPTA)	3.4	4.5	32.2	0.1
Total	**3,955.0**	**4,631.7**	**17.1**	**100.0**

(a) Provisional
(b) The EU-GSP provides preferential access for 66 per cent of the tariff lines on imported goods to the EU, while the EU-GSP+ provides zero duty access to the same tariff lines on imported goods to the EU.
(c) Includes Russia, Belarus and Kazakhstan

Source: Department of Commerce

Sri Lanka benefitted from the GSP facility during 2017. Accordingly, Sri Lanka benefitted from GSP schemes offered by several developed countries, including the EU, the USA, Australia, Canada, Japan, the Russian Federation and Turkey. During 2017, exports under the EU and US GSP schemes have contributed substantially for exports under preferential agreements. Following the Sri Lankan Government's submission in July 2016, the EU reinstated the EU-GSP+ on 19 May 2017. While the standard EU-GSP provides preferential access for 66 per cent of total tariff lines, the EU-GSP+ consists of the full removal of duties for the same tariff lines, covering a wide array of products, including textiles, garments and fisheries exports from Sri Lanka. Meanwhile, the GSP offered by the USA expired on 31 December 2017. However, on 23 March 2018, the USA government re-authorised the GSP program until 31 December

2020, with a retroactive clause providing refunds to importers of GSP eligible goods imported during the lapsed period. Meanwhile, Sri Lankan exports increased under the Global System of Trade Preferences (GSTP) Agreement in 2017, mainly led by cinnamon exports. Although, Sri Lanka continues to enjoy several other GSP schemes offered by trading partners in developed countries, there has been a failure to export a large range of products under such GSP schemes, in 2017, given the narrow export base and product coverage. This prevents the country from reaping the full benefit of GSP schemes.

The government's proactive engagement to better positioning in global value chains (GVCs) through new trade agreements, focusing on potential markets, continued during 2017. Sri Lanka and Singapore concluded eight rounds of negotiations, starting in August 2016, culminating into signing of the Sri Lanka - Singapore Free Trade Agreement (SLSFTA) in January 2018. The SLSFTA, which is a comprehensive bilateral agreement covers separate chapters on trade in services, investment, trade remedies, telecommunications, e-commerce, government procurement, competition, intellectual property rights (IPR) and transparency. Since Singapore currently offers duty-free market access for over 99 per cent of tariff lines of goods, Sri Lanka can mainly benefit from this agreement by exporting services and attracting investment from Singapore. The chapter on e-commerce offers considerable potential for Sri Lanka to access the ASEAN market through Singapore. Following the Memorandum of Understanding (MOU) signed between China and Sri Lanka in September 2014, the two countries have conducted six rounds of negotiations on the proposed China - Sri Lanka Free Trade Agreement (CSFTA). The CSFTA is expected to provide Sri Lanka with a level playing field among competitors in the ASEAN region, who are enjoying preferential access to the Chinese market. In addition to trade in goods, the CSFTA also covers trade in services, investment, and economic and technical cooperation. The ongoing negotiations of the CSFTA are expected to be finalised and signed in 2018. Meanwhile, continuous evaluations of new preferential agreements were collaboratively carried out by the Ministry of Development Strategies and International Trade (MODSIT) and the Department of Commerce (DOC). Several review meetings were conducted to address issues arising from preferential agreements, while Joint Commissions were also conducted with countries, such as Russia and Qatar, to improve bilateral trade relations. Additionally, Sri Lanka is also considering the possibility of signing FTAs with Bangladesh, Malaysia, South Korea and Thailand.

As the trade creation of existing trade agreements is at a significantly low level, several measures were taken to further rationalise the utilisation of existing bilateral trade agreements. The India - Sri Lanka Free Trade Agreement (ISLFTA), which has been in effect since 2000, has contributed towards enhancing bilateral trade between the two countries. The utilisation of the ISLFTA favours Sri Lanka. About 64 per cent of Sri Lanka's exports to India, led by animal feed, arecanuts, paper waste and scrap, spices, and insulated copper wires and cables, compared to only about 6 per cent of imports from India have taken place on preferential terms under the ISLFTA. Ongoing negotiations on the proposed Economic and Technology Cooperation Agreement (ETCA) between India and Sri Lanka continued during the year, completing the seventh round in December 2017. During these negotiations, issues relating to non-tariff measures (NTMs) under the ISLFTA, were also reviewed. In this regard, the Sri Lankan authorities reiterated the need to remove quantitative restrictions imposed under the ISLFTA on some Sri Lankan exports, such as apparel products, black pepper and desiccated coconut. The ETCA is expected to be finalised and signed in 2018. Meanwhile, the Pakistan - Sri Lanka Free Trade Agreement (PSFTA), which has been in effect since 2005, has also contributed towards enhancing bilateral trade between the two countries. The major products exported by Sri Lanka under the PSFTA include betel leaves, coconut products, MDF boards, rubber products and cloves. However, lack of product diversification, ad hoc policy changes and non-tariff barriers, such as procedural delays, remain bottlenecks for exports to Pakistan in spite of the increased utilisation of the PSFTA in 2017.

Regional and multilateral preferential trade agreements are becoming increasingly important towards enhancing cooperation among regional trade and services networks. The Agreement on the South Asian Free Trade Area (SAFTA), which was effected in 2006, aims at further enhancing the integration of economies in the SAARC region through the promotion of preferential trade. This is an enhancement of the South Asian Preferential Trading Arrangement (SAPTA) introduced in 1995. Hence, the SAPTA is scheduled to be gradually replaced by the SAFTA, resulting to decline the usage of tariff preference under the SAPTA over time. The first phase of the trade liberalisation programme (TLP) of the SAFTA was completed by Sri Lanka in November 2015. Under the second phase of the TLP, Sri Lanka is expected to reduce its initial sensitive lists at least by 20 per cent by 31 December 2018. However, earnings from exports under the SAFTA continued to remain low and more than 80 per cent of exports under the SAFTA was pepper. The SAARC Agreement on Trade in Services (SATIS), which was ratified, in November 2012, was in the process of the finalising the national schedules of commitments for member countries. Exports under the Asia-Pacific Trade Agreement (APTA) increased in 2017 with black tea, coconut products and selected garments consisting the major export items. The first ever leaders' summit of the Indian Ocean Rim Association (IORA), which is an intra-governmental organisation aimed at strengthening regional cooperation within member countries, was held in March 2017 in Indonesia. The 17th and 18th rounds of Senior Officials Meetings and the 15th round of Ministerial Meetings of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) were also held in 2017. The necessity to intensify efforts to realise the directives outlined and the agenda of action as agreed by the leaders during the Goa Retreat was reaffirmed during these meetings.

Sri Lanka's engagement in relation to the TFA, which is a significant achievement of the WTO since its establishment in 1995, continued during 2017. Sri Lanka ratified the TFA in May 2016. It came into effect in February 2017, with two-thirds (110) of the WTO members having completed their ratification. In May 2017, with the support of the World Bank Group, a Secretariat was established for the National Trade Facilitation Committee (NTFC) with a view to facilitate domestic coordination and implementation of the provisions of the TFA and other trade facilitation initiatives in Sri Lanka. The NTFC initiated activities to establish the NSW and TIP. The TFA requires WTO members to undertake trade facilitation commitments, that are grouped into three categories. Category 'A' contains provisions to be implemented upon the entry into force of the TFA, category 'B' contains provisions to be implemented after a transitional period, while category 'C' contains provisions to be implemented after the building-up of capacities obtained through TFA assistance and capacity building programmes. As a result, Sri Lanka has notified category 'A' commitments to the WTO in July 2014, while notification of category 'B' and 'C' commitments, and their definitive dates of implementation have been notified to the WTO in February 2018. Furthermore, the 11th WTO Ministerial Conference held in Argentina, in December 2017, was concluded without an agreement on a common Ministerial Declarations or Decisions on sensitive matters such as agriculture, fisheries subsidies and services.

Recognising the importance of strong institutional support in promoting exports, the government initiated several new measures to strengthen the policy environment and institutional capacity. The MODSIT formulated the New Trade Policy (NTP) with four key elements, namely competitiveness through domestic policy reforms; market access and trade facilitation; macroeconomic balance, policy and institutional coherence; and the adjustment of firms and people. The Cabinet of Ministers approved the NTP in August 2017. In addition, the MODSIT, being the main agency to promote and strategise Sri Lanka's competitiveness in international trade, initiated several policy measures to improve institutional coherence among entities, including the Board of Investment (BOI) and the Export Development Board (EDB). In line with these initiatives, the BOI is in the process of implementing a virtual one-stop-shop with a web enabled application tracking system to expedite the investment approval process through improvements in coordination among 24 identified key line agencies. Further, the MODSIT has articulated a road map for investment climate reforms towards improving the overall ranking of Sri Lanka's Doing Business to 70 by 2020 from the current level of 110. Formulation of the NES by the EDB to achieve a target of US dollars 27 billion from merchandise and services exports by 2022 continued in 2017. Following extensive stakeholder consultations, six focus sectors with potential to further enhance export performance have been identified, namely Information and Communication Technology (ICT), Business Process Management (BPM); wellness tourism; boat building; electrical and electronic components; processed-food and beverages; and spices and concentrates. In addition, essential developments in trade supporting functions such as trade information and promotion; national quality infrastructure; logistics; and innovation and entrepreneurship have also been identified. The implementation of the NES is expected to commence once the approval of the Cabinet of Ministers is obtained.

Strong institutional support was extended towards the implementation of strategies on external trade during 2017. Prioritising the NES in 2017, the EDB implemented a number of programmes, while performing many activities towards export promotion. In this regard, the EDB is expected to establish an e-trade information and promotion platform, which allows exporters to access trade promotional tools and reliable trade information on time. A national programme to transform 2,000 regional SMEs as exporters was initiated in March 2017, in Jaffna, while a programme to encourage women entrepreneurs was also commenced in Kilinochchi. It is expected to set up farmer clusters on selected value added products under the "One Village One Product" programme. Further, routine activities in relation to trade promotion and facilitation, such as participation in recognised foreign trade fairs, facilitation of inward and outward trade delegations, conducting Exporters' Forum to solve trade related issues and appreciation of exporters through award ceremonies continued during 2017. Trade Chambers also contributed towards export promotion throughout the year. This was instrumental in interconnecting the state and private sector stakeholders. Trade Chambers were involved in stakeholder consultations, awareness campaigns and capacity building programmes among exporters. Meanwhile, Sri Lanka Customs (SLC) streamlined their activities such as container examination and release processes and refund and drawbacks procedures. In addition, a bank guarantee management system was introduced to the ASYCUDA World System of the SLC while several procedures were automated, such as yard selection procedure and Less Container Load (LCL) warehouse processes, in order to facilitate the smooth flow of port activities.

Budget 2018 proposed several trade supportive measures while trade and tariff policies and legal amendments introduced in 2017 focused on further rationalising and simplifying the tax regime and promoting fair trade. The Budget 2018 proposed measures to strengthen the eco-certification programme, launch an IT initiative to promote IT services exports, support priority sectors under the NES to access international markets, introduce an "export market access support" programme allocating Rs. 800 million as a part of the trade adjustment programme that was suggested by the NTP and provide product development assistance to promote the export sector. The government also envisages the gradual phasing out of para-tariffs applicable in the tax system with a view to promoting Sri Lanka for foreign investment, particularly those related to regional and global value chains (ie, accessing international production sharing networks). In line with this, duty rates of over 1,200 tariff lines have been removed. To protect local industries against unfair trading practices and unforeseen import surges, Anti-Dumping and Countervailing Duties Act No. 2 of 2018 and Safeguard Measures Act No. 3 of 2018 were enacted in March 2018. In addition, SLC is in the process of amending the Customs Ordinance to make necessary legal provisions for TFA implementation.

Although external trade is gaining momentum, global and domestic issues and challenges continue to hinder the improved performance. Historically highest export earnings and FDI inflows as well as increased competitiveness due to the flexible exchange rate reflect the improved performance in external trade in 2017. The synchronised growth in all leading economies led to a notable increase in demand for exports in 2017, while certain major obstacles, such as the ban on the export of fisheries products to the EU market and suspension of the EU GSP+ facility were successfully addressed during 2016 and 2017. Further, trade relations have been strengthened through a new comprehensive FTA with Singapore, while negotiations are ongoing for entering into new FTAs with several trading partners. Meanwhile, a comprehensive domestic policy framework has been initiated as laid down in the Government's Vision 2025, NTP, NES and the Investor Roadmap, with wider stakeholder consultation. However, removing supply side constraints, such as high production cost and lack of required labour, which result in lower competitiveness, need to be addressed as a high priority. In addition, the possible impact of the Brexit and the impact of protectionist policies of advanced countries, especially the USA, and the removal of the GSP schemes once Sri Lanka reaches the upper middle-income status remain as impending risks. To face these challenges, remedial measures such as trade facilitation and penetrating product sharing networks remain vital. Moreover, creation of an export culture, along with Research and Development (R&D) led innovation, needs to be prioritised for sustainable expansion in trade. Further, consistent domestic policies in line with nonaligned foreign policies need to be maintained along with the rationalisation of the institutional framework, to create an investor friendly environment. While continuation of efforts to enhance market access through new FTAs as well as increased economic cooperation is important, capacity building in trade negotiations and trade relations needs to be further improved for successful negotiation and implementation of FTAs.

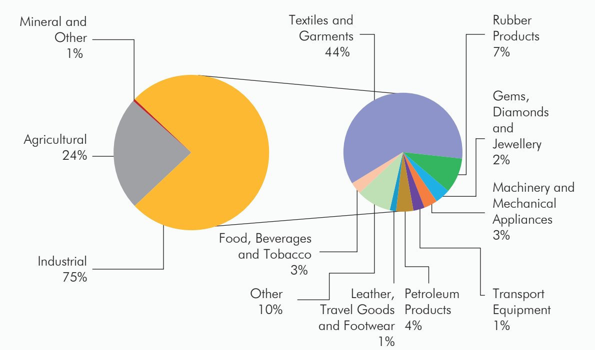
5.3 Trade in Goods, Trade Balance, Terms of Trade and Direction of Trade

5.3.1 Export Performance

Export performance, which was affected adversely during the past two years, rebounded strongly in 2017, recording the historically highest value for earnings. The strong growth in export earnings was underpinned by the restoration of the EU-GSP+ facility, recovery in external demand, expansion in investment in export related industries, increased commodity prices in the international market, conducive external trade policies together with strong institutional support and the flexible exchange rate policy maintained by the Central Bank. Accordingly, with the continuous double-digit growth registered in the second half of the year, earnings from exports increased by 10.2 per cent to US dollars 11,360 million in 2017, from US dollars 10,310 million in 2016. Earnings from industrial exports mainly contributed to the increase in export earnings in 2017, followed by agricultural exports.

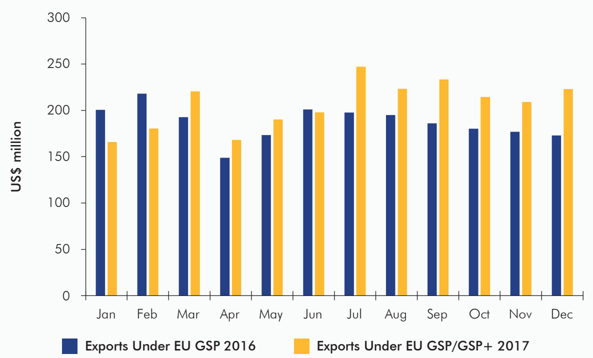
Earnings from industrial exports, which accounted for about three fourths of total exports, increased by 7.6 per cent to US dollars 8,542 million in 2017. Surpassing the US dollars 5 billion mark for the first time in history, export earnings from textiles and garments, which account for about 44 per cent of total exports, largely contributed to the increase in industrial exports. Despite the decline recorded during the first half of 2017, on a cumulative basis, earnings from textiles and garments exports increased by 3.0 per cent to reach US dollars 5,032 million in 2017, reflecting the improved demand from the EU market following the restoration of the GSP+ facility since May 2017. Accordingly, the continuous increase in garment exports to the EU market during the second half of the year led to a 4.0 per cent growth (year-on-year), reaching US dollars 1,982 million for the year in 2017, while contributing to around 42 per cent of total garment exports. Earnings from garment exports to the USA increased by 1.7 per cent, while

Chart 5.2
Composition of Exports - 2017



Sources : Sri Lanka Customs
Central Bank of Sri Lanka

Chart 5.3
Exports under EU GSP/GSP+ Scheme



Source : Department of Commerce

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those to non-traditional markets including Australia, India, Canada, Hong Kong and Mexico increased by 3.9 per cent during the year. Further, earnings from petroleum exports increased significantly by 51.4 per cent to reach US dollars 434 million, in 2017, mainly due to the combined effect of high average prices and export volumes of bunker fuel. In line with high fuel prices that prevailed in international markets, average export prices of bunker fuel increased by 28.3 per cent during the year. Exported volumes of bunker fuel also increased by 16.3 per cent due to increased demand for Sri Lanka's bunker fuel, following the increase in taxes levied on bunker fuel in India since July 2017. Export earnings from food, beverages and tobacco rose by 21.3 per cent to US dollars 393 million, in 2017, owing to the healthy performance registered in vegetables, fruits and nuts preparation, particularly coconut related products such as liquid coconut milk and coconut cream. Reflecting the improved performance in almost all sub-categories, especially tyres, and surgical and other gloves, export earnings from rubber products increased by 8.8 per cent to US dollars 835 million in 2017. Export earnings of machinery and mechanical appliances, transport equipment, base metals and articles, and wood

Table 5.3
Composition of Exports[1]

Category	2016		2017 (a)		Change in Value US$ million	Y-o-Y Change %	Contribution to Change %
	Value US$ million	Share %	Value US$ million	Share %			
Agricultural Exports	**2,326.1**	**22.6**	**2,767.2**	**24.4**	**441.1**	**19.0**	**42.0**
Tea	1,269.0	12.3	1,529.8	13.5	260.8	20.5	24.8
Rubber	32.7	0.3	38.9	0.3	6.3	19.1	0.6
Coconut	366.0	3.5	347.9	3.1	-18.1	-4.9	-1.7
Spices	317.1	3.1	406.2	3.6	89.2	28.1	8.5
Vegetables	26.5	0.3	28.5	0.3	2.0	7.5	0.2
Unmanufactured Tobacco	31.2	0.3	36.5	0.3	5.3	17.1	0.5
Minor Agricultural Products	114.1	1.1	138.7	1.2	24.6	21.6	2.3
Seafood	169.6	1.6	240.6	2.1	71.0	41.9	6.8
Industrial Exports	**7,940.1**	**77.0**	**8,541.9**	**75.2**	**601.8**	**7.6**	**57.3**
Textiles and Garments	4,884.1	47.4	5,031.9	44.3	147.9	3.0	14.1
Rubber Products	767.9	7.4	835.4	7.4	67.5	8.8	6.4
Petroleum Products	286.9	2.8	434.3	3.8	147.5	51.4	14.0
Gems, Diamonds and Jewellery	273.9	2.7	257.5	2.3	-16.4	-6.0	-1.6
Food, Beverages and Tobacco	323.7	3.1	392.7	3.5	69.0	21.3	6.6
Machinery and Mechanical Appliances	317.6	3.1	370.8	3.3	53.2	16.7	5.1
Printing Industry Products	42.4	0.4	48.8	0.4	6.5	15.3	0.6
Transport Equipment	131.5	1.3	162.3	1.4	30.8	23.4	2.9
Leather, Travel Goods and Footwear	165.6	1.6	158.4	1.4	-7.2	-4.4	-0.7
Ceramic Products	34.4	0.3	33.7	0.3	-0.7	-1.9	-0.1
Other Industrial Exports	712.2	6.9	816.1	7.2	103.8	14.6	9.9
Mineral Exports	**29.0**	**0.3**	**34.5**	**0.3**	**5.5**	**19.0**	**0.5**
Unclassified Exports	**14.5**	**0.1**	**16.9**	**0.1**	**2.3**	**16.0**	**0.2**
Total Exports (b) (c)	**10,309.7**	**100.0**	**11,360.4**	**100.0**	**1,050.7**	**10.2**	**100.0**
Annual Average Exchange Rate (d)	**145.60**		**152.46**				

(a) Provisional
(b) Excludes re-exports
(c) Adjusted
(d) Rupee/US dollar exchange rate

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

1. Central Bank initiated the compilation of trade statistics based on Standard International Trade Classification (SITC) - Revision 4. Export performance based on SITC - Revision 4 are published in Appendix tables 68 and 69.

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and paper products also contributed to the boost in industrial exports. Meanwhile, earnings from gems, diamonds and jewellery exports decreased by 6.0 per cent during the year, reflecting the poor performance reported in all sub-categories. Low production of gem stones due to heavy rainfall reported in gem mining areas and the impact of the ban for issuance of back-hoe licenses contributed to this decline. However, the decline in gem exports was mainly due to low exports in raw form, while the export of value added gems increased. Export earnings from leather, travel goods and footwear declined by 4.4 per cent to US dollars 158 million in 2017 due to low footwear exports. Also, export earnings from ceramic products declined due to decreases recorded in tiles and tableware, household items and sanitaryware.

Maintaining its growth momentum throughout the year, earnings from agricultural exports rose significantly by 19.0 per cent to US dollars 2,767 million in 2017. Favourable prices in the international market, particularly for tea, mainly contributed to this growth. Although export volumes of tea remained broadly unchanged, earnings from tea exports increased notably by 20.5 per cent to US dollars 1,530 million, in 2017, owing to attractive average export prices, in view of high prices in the international market driven by the decline in global supply, particularly from Kenya. Accordingly, the average export price of tea increased by 20.5 per cent to US dollars 5.29 per kilogram in 2017, from US dollars 4.39 per kilogram recorded in the previous year. Although export volumes of tea decelerated continuously until April 2017, impacted by dry weather conditions during the early part of the year, export volumes recovered during the latter part of the year due to increased production of low grown tea. Accordingly, export volumes of tea increased by 0.1 per cent to reach 289 million kilograms in 2017. Turkey, Russia, Iran, Iraq and the United Arab Emirates (UAE) remained the main tea export destinations, in 2017, contributing to around 48 per cent of tea export earnings. Further, export earnings from spices increased significantly by 28.1 per cent to US dollars 406 million, in 2017, reflecting the improved performance in cinnamon, cloves and pepper exports. Earnings from cinnamon exports increased by 27.4 per cent, in 2017, driven by high volumes and average export prices. Despite the reduction in average export prices, earnings from cloves and pepper exports increased significantly during the year as a result of high export volumes. Meanwhile, reflecting the positive impact of the removal of the ban on exports of fisheries products to the EU market since June 2016 and the restoration of the GSP+ facility, earnings from seafood exports increased considerably by 41.9 per cent to US dollars 241 million in 2017. Earnings from seafood exports to the EU market rose significantly by 112.3 per cent to US dollars 67 million during the year. In addition, high demand for Sri Lankan seafood from other countries, such as the USA, Vietnam, Thailand, Hong Kong and Taiwan, also contributed favourably to the healthy growth in seafood exports. Further, earnings from minor agricultural products increased significantly by 21.6 per cent to US dollars 139 million in 2017, owing to higher earnings from betel leaves (168.2 per cent), fruits (19.6 per cent) and arecanuts (10.6 per cent). In addition, export earnings from rubber, unmanufactured tobacco and vegetables also contributed to the increase in agricultural exports. Meanwhile, export earnings from coconut declined by 4.9 per cent to US dollars 348 million, in 2017, with the subdued performance of coconut kernel products, despite the increase in coconut non-kernel products. Even though the average export prices of coconut kernel products such as desiccated coconut, coconut oil and copra increased substantially during the year, lower coconut production due to adverse weather conditions resulted in a contraction in export volumes. However, export earnings from coconut non-kernel products increased by 5.5 per cent to US dollars 158 million, owing to the increases registered in fibres and fresh coconut.

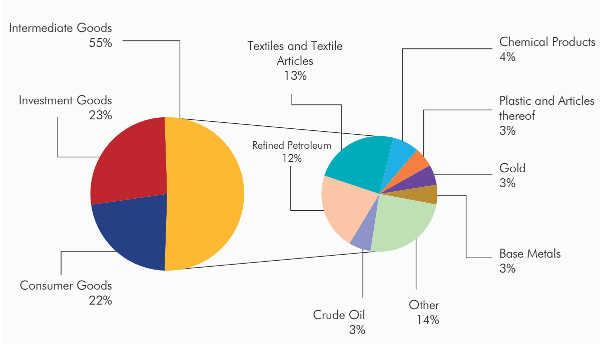
Earnings from mineral exports increased by 19.0 per cent to US dollars 34 million in 2017, accounting for only 0.3 per cent of total export earnings. Earnings from the export of earth and stones followed by ores, slag and ash, and precious metals contributed towards this growth.

5.3.2 Import Performance

Expenditure on imports rose considerably in 2017, compared to the marginal increase recorded in 2016 and the contraction in 2015, reflecting the spill over effects of adverse weather conditions and firming of international commodity prices. Expenditure on imports increased by 9.4 per cent to US dollars 20,980 million in 2017, recording the historically highest value for imports, mainly due to higher fuel imports. Meanwhile expenditure on non-fuel imports increased by 5.1 per cent to US dollars 17,552 million.

Increase in import expenditure was mainly driven by the increase in imports of intermediate goods. Expenditure on imports of intermediate goods, accounting for about 55 per cent of total imports, amounted to US dollars 11,436 million, in 2017, reflecting a year-on-year increase of 15.9 per cent. Expenditure on fuel imports increased by 38.2 per cent to US dollars 3,428 million during the year, with higher expenditure on imports of all sub categories; crude oil, refined petroleum products and coal. The highest contribution to the increase in fuel imports came from refined petroleum products, which grew by 45.9 per cent owing to increases in import volumes, mainly led by higher demand from the domestic power generation sector in view of dry weather conditions that prevailed in the country. High oil prices in the international market also contributed to the surge in expenditure on refined petroleum imports. Import expenditure on coal increased by 32.9 per cent while expenditure on crude oil imports increased by 18.1 per cent due to higher prices, despite a reduction in import volumes. Supply restrictions by the Organization of the Petroleum Exporting Countries (OPEC) as well as robust demand on the back of healthy global economic growth resulted in firming international oil prices in 2017. Accordingly, the average import price of crude oil imported by the Ceylon Petroleum Corporation (CPC) increased by 24.8 per cent to US dollars 57.79 per barrel, in 2017, from US dollars 46.30 per barrel in 2016. Meanwhile, import expenditure on diamonds, precious stones and metals increased significantly, owing to increased gold imports. Expenditure on gold imports increased by 73.7 per cent to US dollars 650 million during the year, following the removal of the Ports and Airports Development Levy (PAL) on gold imports with effect from January 2016. Despite this, there was no significant increase in domestic jewellery production or jewellery exports indicating an illicit

Chart 5.4
Composition of Imports - 2017



Sources : Sri Lanka Customs
Central Bank of Sri Lanka

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Table 5.4
Composition of Imports[2]

Category	2016 Value US$ million	2016 Share (b) %	2017 (a) Value US$ million	2017 (a) Share %	Change in Value US$ million	Y-o-Y Change %	Contribution to Change %
Consumer Goods	**4,319.0**	**22.5**	**4,502.5**	**21.5**	**183.6**	**4.3**	**10.2**
Food and Beverages	1,627.4	8.5	1,841.1	8.8	213.6	13.1	11.9
Rice	12.8	0.1	300.9	1.4	288.1	2,244.7	16.0
Sugar and Confectionery	344.6	1.8	258.0	1.2	-86.6	-25.1	-4.8
Dairy Products	249.3	1.3	315.8	1.5	66.5	26.7	3.7
Lentils	139.4	0.7	114.4	0.5	-25.0	-17.9	-1.4
Other	881.3	4.6	851.9	4.1	-29.4	-3.3	-1.6
Non-Food Consumer Goods	2,691.5	14.0	2,661.5	12.7	-30.0	-1.1	-1.7
Vehicles	794.8	4.1	772.7	3.7	-22.1	-2.8	-1.2
Medical and Pharmaceuticals	525.8	2.7	520.0	2.5	-5.8	-1.1	-0.3
Home Appliances	270.7	1.4	258.2	1.2	-12.6	-4.6	-0.7
Clothing and Accessories	365.8	1.9	369.0	1.8	3.2	0.9	0.2
Other	734.4	3.8	741.6	3.5	7.3	1.0	0.4
Intermediate Goods	**9,870.0**	**51.5**	**11,435.8**	**54.5**	**1,565.8**	**15.9**	**87.1**
Fuel	2,481.0	12.9	3,427.9	16.3	946.8	38.2	52.7
Textiles and Textile Articles	2,704.9	14.1	2,724.2	13.0	19.3	0.7	1.1
Diamonds, Precious Stones and Metals	514.4	2.7	772.4	3.7	258.0	50.1	14.4
Chemical Products	856.3	4.5	834.5	4.0	-21.8	-2.5	-1.2
Wheat and Maize	249.2	1.3	356.6	1.7	107.4	43.1	6.0
Fertiliser	136.9	0.7	102.8	0.5	-34.0	-24.9	-1.9
Other Intermediate Goods	2,927.3	15.3	3,217.3	15.3	290.1	9.9	16.1
Investment Goods	**4,980.8 (b)**	**26.0**	**4,894.7**	**23.3**	**-86.1**	**-1.7**	**-4.8**
Building Materials	1,568.7	8.2	1,591.4	7.6	22.7	1.4	1.3
Transport Equipment	662.9 (b)	3.5	674.9	3.2	12.0	1.8	0.7
Machinery and Equipment	2,740.7	14.3	2,620.6	12.5	-120.1	-4.4	-6.7
Other Investment Goods	8.5	…	7.8	…	-0.7	-7.8	…
Unclassified Imports	**13.1**	**0.1**	**146.8**	**0.7**	**133.7**	**1,024.6**	**7.4**
Total Imports (c)(d)	**19,182.8 (b)**	**100.0**	**20,979.8**	**100.0**	**1,797.0**	**9.4**	**100.0**
Annual Average Exchange Rate (e)	**145.60**		**152.46**				

(a) Provisional
(b) Revised
(c) Excludes re-imports
(d) Adjusted
(e) Rupee/US dollar exchange rate

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

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arbitrage of the tariff differential between India and Sri Lanka. Import expenditure on base metals also increased by 37.8 per cent to US dollars 629 million in 2017, reflecting the larger imports of iron and steel. Despite the reduction in average import prices of wheat, expenditure on wheat and maize increased by 43.1 per cent to US dollars 357 million in 2017, owing to higher import volumes of wheat. In addition, import expenditure on food preparations also rose in 2017 mainly due to palm oil imports, which increased by 75.6 per cent, due to the high demand as a result of low domestic coconut oil production and the reduction of the duty imposed on palm oil imports. Meanwhile, import expenditure on agricultural inputs, textiles and textile articles, and plastic and articles thereof increased during the year.

Import expenditure on fertiliser, chemical products and mineral products recorded a decline during the year, easing the pressure on import expenditure to some extent. Expenditure on fertiliser imports declined significantly by 24.9 per cent to US dollars 103 million, in 2017, mainly due to the decline in imported volumes of fertiliser, particularly urea and other nitrogenous fertilisers. Meanwhile, import expenditure on

2. Central Bank initiated the compilation of trade statistics based on Standard International Trade Classification (SITC) - Revision 4. Import performance based on SITC - Revision 4 are published in Appendix tables 81 and 82.

Table 5.5
Volume of Major Imports

MT '000

Item	2013	2014	2015	2016	2017 (a)
Rice	23	600	286	30	748
1st Quarter	9	6	176	6	259
2nd Quarter	6	102	91	9	79
3rd Quarter	4	145	9	6	160
4th Quarter	4	348	9	8	250
Wheat (b)	895	1,179	1,208	948	1,250
1st Quarter	197	271	242	171	291
2nd Quarter	326	324	342	326	334
3rd Quarter	170	291	373	271	359
4th Quarter	201	292	251	179	265
Sugar	548	520	624	651	498
1st Quarter	126	131	169	147	108
2nd Quarter	175	162	161	144	158
3rd Quarter	118	152	156	179	101
4th Quarter	129	75	137	181	132
Crude Oil (b)	1,743	1,824	1,763	1,685	1,591
1st Quarter	482	548	369	372	282
2nd Quarter	545	365	355	456	376
3rd Quarter	315	462	472	384	464
4th Quarter	401	449	567	473	469
Refined Petroleum (b)	2,907	3,385	3,321	3,885	4,895
1st Quarter	673	970	799	830	1,275
2nd Quarter	756	762	952	1,163	1,123
3rd Quarter	791	1,006	744	749	1,336
4th Quarter	687	647	826	1,142	1,161
Fertiliser	600	765	873	527	399
1st Quarter	61	202	163	139	78
2nd Quarter	139	190	244	135	73
3rd Quarter	187	95	189	126	129
4th Quarter	214	277	277	127	119

(a) Provisional
(b) Adjusted

Sources: Ceylon Petroleum Corporation
Lanka IOC PLC
Prima Ceylon Ltd.
Serendib Flour Mills (Pvt) Ltd.
Sri Lanka Customs
Central Bank of Sri Lanka

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chemical products declined by 2.5 per cent due to a reduction in almost all sub categories, while expenditure on mineral product imports declined by 4.9 per cent with a contraction reported in cement clinker imports.

Expenditure on consumer goods imports increased by 4.3 per cent to US dollars 4,503 million in 2017, owing to high import volumes of food and beverages. Import expenditure on food and beverages increased by 13.1 per cent to US dollars 1,841 million, mainly on account of rice imports. Despite the reduction reported in average import prices of rice, expenditure on rice imports increased significantly to US dollars 301 million in 2017, from US dollars 13 million in 2016. The sharp increase in rice imports reflected the impact of the reduction of the Special Commodity Levy (SCL) imposed on rice imports to meet the shortage in the domestic market, which was aggravated due to adverse weather conditions that prevailed during two successive cultivation cycles. Accordingly, imported volumes of rice increased significantly to 748 million kilograms in 2017, from 30 million kilograms recorded in 2016. Further, import expenditure on dairy products also increased by 26.7 per cent to US dollars 316 million in 2017, mainly due to the high expenditure incurred on milk powder. Despite a marginal reduction in import volumes of milk powder, import expenditure on milk powder increased notably by 27.6 per cent to US dollars 294 million as a result of higher prices of milk powder prevailed in the global market. In addition, import expenditure on fruits, and oils and fats increased by 14.9 per cent and 28.1 per cent, respectively, during the year. However, expenditure on sugar imports declined by 25.2 per cent to US dollars 256 million, due to the combined effect of the decline in average import prices and volumes of sugar. Moreover, expenditure on spices, seafood and beverages imports declined in 2017.

Import expenditure on non-food consumer goods declined by 1.1 per cent to US dollars 2,661 million in 2017, owing to a reduction in most imports under this category. Import expenditure on personal motor vehicles declined by 2.8 per cent to US dollars 773 million during the year mainly due to the 16.2 per cent reduction reported in the importation of motor cars, despite an increase in motor cycles. Import expenditure on rubber products also declined by 15.8 per cent to US dollars 94 million, in 2017, owing to lower imports of all sub categories, particularly tyres and tubes. In addition, contractions were recorded in the expenditure on home appliances (4.6 per cent), cosmetics and toiletries (10.8 per cent), and medical and pharmaceuticals (1.1 per cent) during the year. In contrast, import expenditure on telecommunication devices, household and furniture items, and clothing and accessories increased in 2017.

Import expenditure on investment goods declined in 2017, reflecting the reduced imports of machinery and equipment. Expenditure on investment goods imports, which account for around 23 per cent of total import expenditure, decreased by 1.7 per cent to US dollars 4,895 million, in 2017. Import expenditure on machinery and equipment contracted by 4.4 per cent to US dollars 2,621 million, reflecting the significant reduction in agricultural and textile industry related machinery, electric motors and generating sets, machinery and equipment parts, and turbines. However, import expenditure on building materials increased by 1.4 per cent to US dollars 1,591 million in 2017, mainly due to higher imports of iron and steel. Meanwhile, import expenditure on transport equipment increased by 1.8 per cent to US dollars 675 million.

5.3.3 Trade Balance

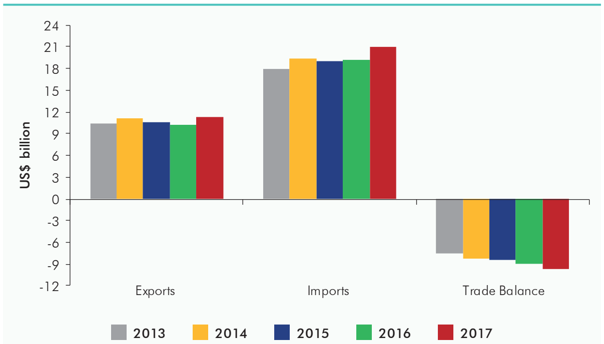
The deficit in the trade balance widened in 2017 due to the higher increase of expenditure on imports, which outpaced the increase in export earnings. The trade deficit expanded significantly during the early part of the year owing to high import expenditure incurred due to adverse weather conditions. However, the expansion in the trade deficit decelerated during the second half of the year, with higher earnings from exports reflecting the positive impact of the restoration of the GSP+ facility. Consequently, the trade deficit widened to US dollars 9,619 million in 2017 from US dollars 8,873 million in 2016. The trade deficit as a percentage of GDP increased to 11.0 per cent in 2017 from 10.9 per cent in 2016.

5.3.4 Terms of Trade

Sri Lanka's terms of trade improved in 2017 as the export price index increased at a higher rate than the import price index. Commodity prices in the international market rose in 2017, leading to an increase in the export price index by 2.4 per cent to 96.4 index points, while the import price index increased at a lower rate of 1.2 per cent to 91.3 index points. With these developments, the terms of trade improved by 1.2 per cent to 105.5 index points in 2017, from 104.3 index points in 2016.

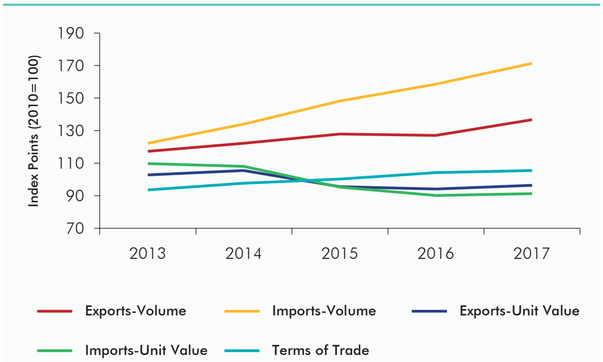
The overall export price index rose largely due to the increase in prices of agricultural exports by 11.9 per cent. Export prices of tea increased by 18.9 per cent in 2017, while the

Chart 5.5
Exports, Imports and Trade Balance



Sources : Sri Lanka Customs
Central Bank of Sri Lanka

Chart 5.6
Terms of Trade and Trade Indices



Source : Central Bank of Sri Lanka

BOX 4
Compilation of International Trade Statistics under Standard International Trade Classification

Introduction

In Sri Lanka, international trade statistics are reported based on the Harmonised System Code (HS Code), which is an international standardised system of names and numbers to classify traded products. The HS Code captures the statistics related to the categories of key export and import items of a country. This system enables international comparability of trade statistics up to six-digit level and the HS Convention allows countries to introduce statistical details beyond the six-digit level in order to preserve necessary flexibility in accommodating national needs.[1] The Central Bank also compiles and publishes international trade statistics based on HS Codes and guided by the HS Convention, the Central Bank reclassified the country's trade basket in 2011, based on the National Import Tariff Guide - 2010 of the Sri Lanka Customs (SLC).

The Central Bank obtains import and export data from the SLC to compile trade statistics on a monthly basis. In the process of compiling trade statistics, the Central Bank makes necessary adjustments to the data relevant to certain key import and export items. These adjustments help to compile data more accurately, which is useful to gauge the country's trade performance in a timely manner. However, certain limitations entail the current method of classification of trade statistics, particularly in terms of international comparison, although these statistics provide some insights regarding trends and performance of Sri Lanka's external trade. As Sri Lanka is actively engaged in several policy initiatives, such as exploring of potential markets, expanding the export base and positioning of the country in key global value chains, the availability of high quality data, which are compiled based on international best practices and standards, remains a vital requirement.

Standard International Trade Classification (SITC)

The classification of merchandise trade statistics based on the Standard International Trade Classification (SITC) is widely used for international comparison of trade statistics across countries. Recognising the importance of adhering to international standards, the Central Bank commenced compilation of trade statistics based on SITC, which is an internationally accepted and standardised method of trade statistics classification recommended by the United Nations. SITC helps comparability of international trade statistics and provides a reliable picture of the latest developments in international trade at a fairly accurate commodity-specific level. SITC can be used to study long-term trends in international merchandise trade, since revisions to SITC classification are made less frequently. Hence, SITC is known to facilitate more scientific and robust analysis and these statistics are useful for policy makers as well as for researchers.

Structure of SITC

The first SITC method was introduced in 1950 and the increase in the volume of trade and the changes that had taken place in geographical and commodity patterns as well as technological changes led to several revisions to the SITC. Currently, the 4th revision, which was published in 2006 (SITC - Revision 4), is used by countries to ensure international comparability and analytical value of trade statistics.

In order to facilitate comprehensive economic analyses, as per SITC, traded products are classified not only on the basis of their material and physical properties, but also according to the stages of processing and economic functions. Based on the guidelines of the United Nations, SITC-Revision 4 comprises 10 sections, which is termed as one-digit code, 67 divisions (two-digit code), 262 groups (three-digit code), 1,023 subgroups (four-digit code) and 2,970 basic headings (five-digit code). Hence, the SITC follows a hierarchical structure in presenting the items in a trade basket.

The classification scheme of the SITC Revision 4 to classify all the traded items and its hierarchical structure are given in Table B.4.1.

Table B.4.1
Classification Scheme of SITC – Revision 4

Section No.	Section	Number of Division	Number of Groups	Number of Sub Groups	Number of Basic Headings
0	Food and live animals	10	36	132	335
1	Beverages and tobacco	2	4	11	21
2	Crude materials, inedible, except fuels	9	36	115	239
3	Mineral fuels, lubricants and related materials	4	11	22	32
4	Animal and vegetable oils, fats and waxes	3	4	21	41
5	Chemicals and related products, n.e.s.	9	34	132	467
6	Manufactured goods classified chiefly by material	9	52	229	767
7	Machinery and transport equipment	9	50	217	642
8	Miscellaneous manufactured articles	8	31	140	420
9	Commodities and transactions not classified elsewhere in the SITC	4	4	4	6
Total number of Divisions, Groups, Subgroups and Basic Headings (Items)		**67**	**262**	**1,023**	**2,970**

Source: Standard International Trade Classification - Revision 4, (2006), United Nations

An example of the hierarchical structure of the traded good 'tea', which is Sri Lanka's main agricultural export item, is presented in Table B.4.2. Accordingly, it appears as a sub group (tea, whether or not flavoured) at level 4, under 'food and live animals'. At the fifth level, the

1 Trade statistics are harmonised only up to six-digit level, while country specific classifications are allowed beyond that level.

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same item is further classified under 4 basic headings, representing different forms of the same product. However, in the existing trade classification export of tea is categorised under agricultural exports.

Table B.4.2
Hierarchical Structure of Tea under the SITC - Revision 4

Level	Code	Description
Section	0	Food and live animals
Division	07	Coffee, tea, cocoa, spices, and manufactured thereof
Group	074	Tea and mate
Sub Group	074.1	Tea, whether or not flavoured
Basic Heading	074.11	Green tea (not fermented), in immediate packings of a content not exceeding 3 kg, whether or not flavoured
	074.12	Other green tea (not fermented), whether or not flavoured
	074.13	Black tea (fermented) and partly fermented tea, in immediate packings of a content not exceeding 3 kg, whether or not flavoured
	074.14	Other black tea (fermented) and other partly fermented tea, whether or not flavoured

Source: Standard International Trade Classification - Revision 4, (2006), United Nations

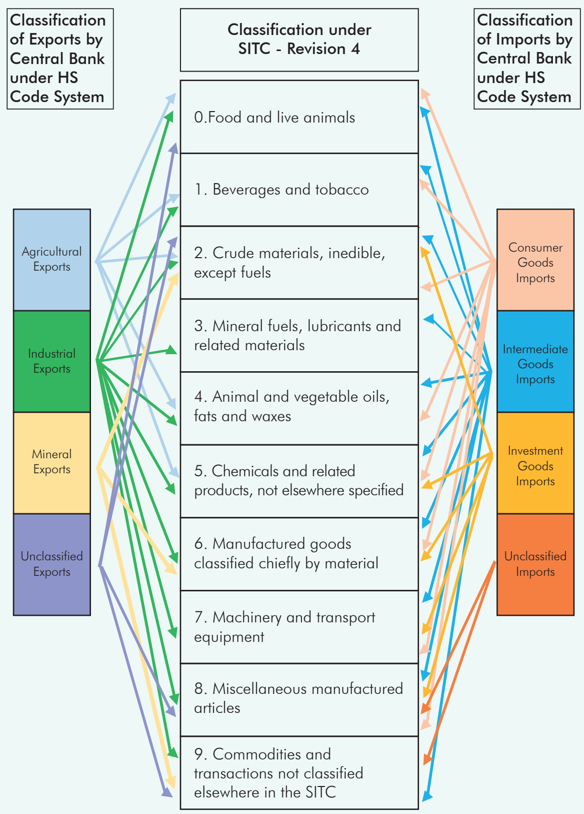
Comparison of Trade Data

According to the classification currently followed by the Central Bank, trade statistics are categorised under four levels, where each item is identified under a major category, minor category, an item and a sub item. Based on the level of value addition, about 8,000 export items are categorised under major categories, namely agricultural exports, industrial exports, mineral exports and unclassified exports. Export items in the primary form or with relatively low levels of value addition have been classified under agricultural or mineral exports, whereas those items with significant levels of value addition have been classified under industrial exports. With respect to imports, around 13,000 import items have been categorised under the major import categories of consumer goods, intermediate goods, investment goods and unclassified imports and the main basis for the classification is the prevailing tariff structure. The highest tariff rates are generally applied on consumer goods to discourage excessive imports of consumer goods, while zero or low rates are applied on investment goods and consumer goods that are deemed to be essential items. The middle tariff rates are applied mainly on intermediate goods. In addition, importation of final goods is classified either as a consumer good or investment good (eg: buses are included in investment goods and motor cars are classified as consumer goods), while imported goods used for interim purposes are classified as intermediate goods, for example, textiles and petroleum. Further, semi processed imported items are classified according to the level of value addition and thereby imported items that have relatively low value addition are categorised under consumer goods, while high level of value addition items are classified as intermediate goods. The Central Bank deploys this classification in publishing the trade statistics for the benefit of stakeholders and conducting relevant analyses for the purpose of policy formulation.

However, as per the method based on SITC, items are mainly classified into ten sections based on their material and physical properties, processing stages, market practices and uses of the products, importance of the commodities in terms of world trade, and technological changes. Accordingly, the current trade statistics, which are compiled based on the HS Code, can be reclassified based on the SITC, enabling international comparability of the Sri Lankan merchandise trade statistics.

A graphical representation of the relationship between the existing classification and SITC is given in Figure B.4.1.

Figure B.4.1
Relationship between Classifications of the Central Bank and SITC



Even though, the methodologies of two classifications are different, total export and import numbers can be tallied at the final compilation stage. Therefore, no valuable information is lost due to such reclassifications. The statistics under SITC is now published in the Annual Report 2017 (Statistical Appendix Tables 68, 69, 81 and 82). As the SITC has been recognised as an analytical tool, while the use of HS Code remains vital to compile and disseminate trade statistics for domestic policy purposes, the Central Bank intends to continue the compilation of trade statistics based on both approaches and publish such statistics in its key publications and databases.

Reference

Standard International Trade Classification - Revision 4, (2006), United Nations

Table 5.6
Trade Indices (a)

2010 = 100

Category	Value Index			Volume Index			Unit Value Index		
	2016	2017 (b)	Y-o-Y Change %	2016	2017 (b)	Y-o-Y Change %	2016	2017 (b)	Y-o-Y Change %
EXPORTS									
Agricultural Exports	**100.9**	**120.0**	**19.0**	**90.8**	**96.5**	**6.3**	**111.2**	**124.3**	**11.9**
Tea	88.1	106.2	20.5	86.2	87.4	1.3	102.2	121.6	18.9
Rubber	18.9	22.5	19.1	27.2	31.4	15.5	69.4	71.6	3.1
Coconut	220.9	210.0	-4.9	174.1	154.5	-11.3	126.9	136.0	7.1
Spices	153.0	196.1	28.1	100.3	132.2	31.8	152.6	148.3	-2.8
Minor Agricultural Products	159.7	194.2	21.6	149.6	169.8	13.5	106.8	114.4	7.1
Industrial Exports	**130.3**	**140.2**	**7.6**	**144.9**	**156.3**	**7.9**	**89.9**	**89.7**	**-0.3**
Textiles and Garments	145.6	150.0	3.0	127.1	129.8	2.1	114.6	115.6	0.9
Petroleum Products	109.0	165.0	51.4	185.8	228.5	23.0	58.6	72.2	23.1
Rubber Products	137.9	150.1	8.8	104.2	109.4	5.0	132.4	137.2	3.6
Mineral Exports	**119.7**	**142.4**	**19.0**	**88.9**	**105.6**	**18.8**	**134.6**	**134.8**	**0.2**
Total Exports	**119.6**	**131.8**	**10.2**	**127.0**	**136.7**	**7.6**	**94.1**	**96.4**	**2.4**
IMPORTS									
Consumer Goods	**174.5**	**182.0**	**4.3**	**156.5**	**167.4**	**6.9**	**111.5**	**108.7**	**-2.5**
Food and Beverages	123.0	139.2	13.1	124.1	146.7	18.2	99.1	94.8	-4.3
Non-Food Consumer Goods	233.7	231.1	-1.1	193.8	191.0	-1.4	120.6	121.0	0.3
Intermediate Goods	**122.6**	**142.1**	**15.9**	**142.5**	**158.6**	**11.3**	**86.0**	**89.6**	**4.1**
Fuel	81.6	112.7	38.2	129.5	150.7	16.4	63.0	74.8	18.7
Fertiliser	57.0	42.8	-24.9	68.6	53.7	-21.7	83.1	79.7	-4.1
Chemical Products	164.7	160.5	-2.5	163.4	161.6	-1.1	100.8	99.3	-1.5
Wheat and Maize	93.9	134.4	43.1	92.7	134.0	44.5	101.3	100.3	-1.0
Textiles and Textile Articles	149.5	150.6	0.7	138.2	137.6	-0.4	108.2	109.4	1.1
Plastics and Articles thereof	146.1	149.6	2.4	155.7	160.5	3.1	93.8	93.2	-0.7
Diamonds, Precious Stones and Metals	136.2	204.6	50.1	155.0	232.2	49.8	87.9	88.1	0.2
Investment Goods	**180.8 (c)**	**177.7**	**-1.7**	**208.9 (c)**	**208.7**	**-0.1**	**86.5 (c)**	**85.1**	**-1.6**
Building Materials	190.9	193.7	1.4	206.2	220.1	6.8	92.6	88.0	-5.0
Transport Equipment	111.9 (c)	113.9	1.8	110.9 (c)	112.8	1.8	100.9 (c)	101.0	...
Machinery and Equipment	204.9	195.9	-4.4	253.9	244.2	-3.8	80.7	80.2	-0.6
Other Investment Goods	254.0	234.1	-7.8	262.0	224.6	-14.3	96.9	104.2	7.6
Total Imports	**143.1 (c)**	**156.5**	**9.4**	**158.5 (c)**	**171.3**	**8.1**	**90.2 (c)**	**91.3**	**1.2**
Terms of Trade							**104.3 (c)**	**105.5**	**1.2**

(a) In terms of US dollars
(b) Provisional
(c) Revised

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

export price indices for both coconut and minor agricultural products increased by 7.1 per cent. However, the export price index for spices recorded a decline. Meanwhile, the export price index relating to industrial exports declined marginally by 0.3 per cent in 2017, mainly led by the reductions in export price indices of transport equipment, gems, diamonds and jewellery, machinery and mechanical appliances, and plastics and articles thereof. However, the price index for petroleum products increased significantly by 23.1 per cent together with price indices for exports of rubber products (3.6 per cent), ceramic products (1.8 per cent) and food, beverages and tobacco (1.8 per cent). Although, the price index in respect of textiles and garments declined by 1.6 per cent during the first half of 2017, this index reflected a marginal increase of 0.9 per cent by the end of the year.

During 2017, the increase in the import price index was led by intermediate goods, while the import price indices of consumer goods and investment goods remained lower in comparison to the previous year. The import price index for intermediate goods increased by 4.1 per cent in 2017 driven by the 18.7 per cent growth in the import price index for fuel. Further, import price indices for several sub-categories within the intermediate goods category, including vehicle and machinery parts, unmanufactured tobacco and base metals, increased in 2017. In contrast, the import price index for consumer goods declined by 2.5 per cent, reflecting price reduction in food and beverages, despite a marginal increase in non-food consumer goods. Within the food and beverages category, the import price index for rice, spices, vegetables, beverages and sugar declined, while that of dairy products recorded a noticeable growth during this period. Reflecting price reductions in building materials and machinery and equipment, the import price index for investment goods declined by 1.6 per cent in 2017.

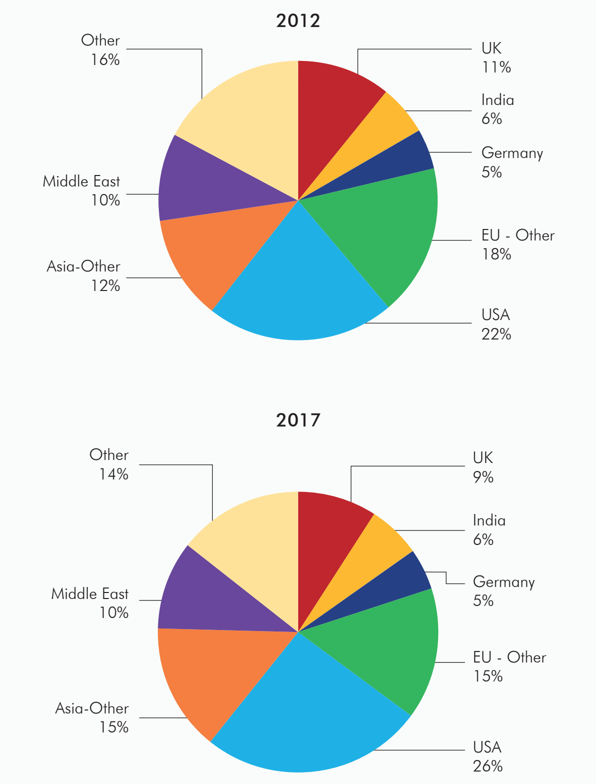
5.3.5 Direction of Trade

India remained Sri Lanka's major trading partner in 2017, followed by China and the USA, all of which together contributed to around 40 per cent of total trade with Sri Lanka. Value of trade between Sri Lanka and India surpassed the US dollars 5 billion mark in 2017, registering a share of 16.1 per cent of Sri Lanka's total external trade. Trade with China and the USA exceeded US dollars 4 billion and US dollars 3 billion, respectively. In addition, trade with countries such as the UAE, Singapore, the UK and Japan exceeded US dollars 1 billion in 2017. Trade with India, Singapore, the UAE, Japan and the USA increased in 2017 in comparison to the previous year while trade with China and the UK declined. Continuing the trade patterns observed in previous years, Western countries, especially the USA and the UK continued to be the main destinations for Sri Lankan exports, while Asia, particularly India and China, dominated Sri Lanka's imports.

The USA continued to be the single largest buyer of Sri Lankan exports, accounting for 25.6 per cent of total exports, followed by the UK (9.1 per cent) and India (6.1 per cent). In 2017, total exports to the USA increased by 3.5 per cent to US dollars 2,909 million, while exports of garments, rubber products and seafood accounted for about 85 per cent of total exports to the USA. As the largest garment export destination of Sri Lanka, the USA accounted for 45.2 per cent of total garment exports, reaching US dollars 2,140 million in 2017. Exports to the UK, the second largest export destination, recorded a marginal decline in 2017 due to a contraction in the export of garments, coconut products and rubber products. However, seafood, leather, travel goods and footwear, and tea exports to the UK increased in 2017. India, the third largest destination for Sri Lankan exports, recorded a 24.8 per cent growth in 2017 with a notable increase observed in petroleum products and spices. In addition, base metals and articles, food, beverages and tobacco, animal fodder and garments contributed towards enhancing exports to India in 2017. Further, exports to Germany and Italy, the fourth and fifth largest export destinations for Sri Lanka, increased by 8.1 per cent and 21.9 per cent, respectively, in 2017, mainly due to the increase in garment exports. With the restoration of the GSP+ facility, earnings from garment exports to the EU increased by 4.0 per cent in 2017, in view of the high demand from Italy, Netherlands, Sweden, Germany and Denmark, leading to an increase in total export earnings from the EU. Garments continued to be the main export item to the EU, accounting for 60.0 per cent of total exports to the region. In addition, seafood exports, which accounted for 2.0 per cent of total exports to the EU also increased significantly, in 2017, supported by the removal of the ban on the export of fisheries products to the EU along with the restoration of the GSP+ facility. With the gradual recovery in the Middle East and Russia, earnings of Sri Lankan tea from these countries increased significantly, in 2017. Accordingly, tea exports to Turkey, Iraq and Russia increased during 2017, contributing to 32.3 per cent of earnings from tea exports. In 2017, 44.5 per cent of total tea exports went to the Middle East region and 11.4 per cent to Russia.

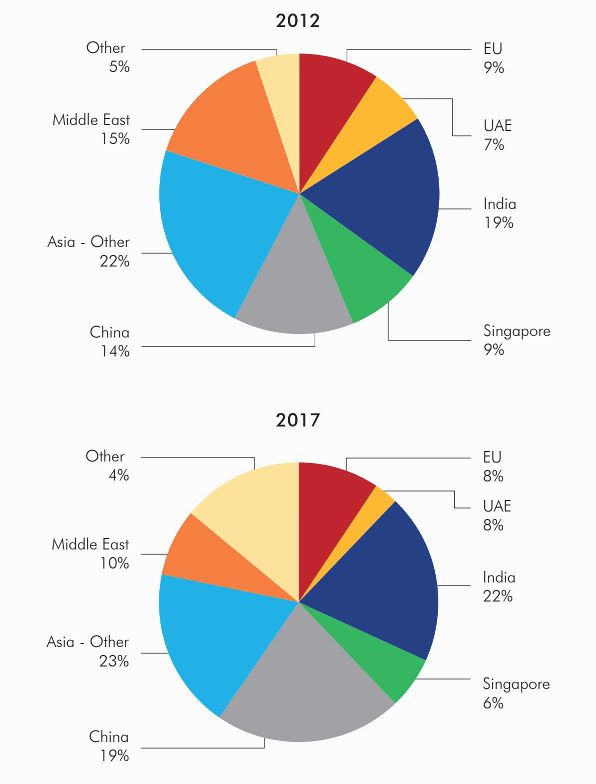
India regained its position as the main source of imports for Sri Lanka in 2017, with a notable share of 21.6 per cent of total import expenditure. During 2017, expenditure on imports from India increased to US dollars 4,527 million, registering a 18.7 per cent growth along with petroleum products, rice, base metals and building materials imports. While, China, the second largest source of imports accounted for 18.9 per cent of total imports, the associated import expenditure recorded a marginal decline of 1.0 per cent to US dollars 3,955 million in 2017. Lower imports of transport equipment, petroleum products, fertiliser, base metal, chemical products, and machinery and equipment contributed to this decline. However, textiles and textile articles, telecommunication devices, and vehicle and machinery parts imported from China increased during the year. The UAE, the third largest, import source accounted for 8.1 per cent of total imports with petroleum products and diamonds, precious stones and metals remaining key imports. Singapore was the fourth largest source with imports of petroleum products, diamonds, precious stones and metals, as well as telecommunication devices. Imports from Japan increased by 9.3 per cent in 2017, making Japan the fifth largest import sourcing country for Sri Lanka, due to higher imports of transport equipment, base metals, rubber and articles thereof, and building materials. However, vehicles, which constitute the major import item from Japan, declined significantly during 2017 responding to the macroprudential measures introduced in 2016.

Chart 5.7
Exports by Destination



Source : Sri Lanka Customs

Chart 5.8
Imports by Origin



Source : Sri Lanka Customs

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5.4 Current and Capital Account

5.4.1 Trade in Services

Trade in services continued to support the external current account by recording considerable growth in 2017. A moderate growth in earnings from tourism during the year and a healthy growth in transportation and computer services contributed towards the increase in earnings from export of services by 8.7 per cent to US dollars 7,760 million in 2017, from US dollars 7,138 million in 2016. Stemming from the rising demand for services imports, outflows on account of services also increased by 3.8 per cent to US dollars 4,421 million during the year. Accordingly, the services account of the BOP, recorded a surplus of US dollars 3,338 million in 2017 in comparison to a surplus of US dollars 2,879 million in 2016.

Transport Services

The continuous improvement in transport services supported the expansion in the services account in 2017. Increased earnings on account of passenger fares, freight charges, and port and airport related activities helped gross inflows from the transport sector to reach US dollars 2,376 million in 2017, registering a growth rate of 5.6 per cent over the previous year. Reflecting higher port and airport related service payments, due to increased spending on freight and air travel services, outflows on account of transport services also grew by 4.3 per cent to US dollars 1,688 million during the year. Accordingly, net inflows from the transport sector increased to US dollars 688 million during the year, from US dollars 632 million in 2016.

Inflows relating to passenger fares contributed favourably to improve the services account in 2017. Accordingly, earnings from passenger fares increased by 8.0 per cent to US dollars 1,158 million during the year. Earnings from passenger fares moderated during the first quarter of the year as a result of the drop in the number of passengers travelling to Sri Lanka caused by the partial closure of the Bandaranaike International Airport (BIA) during January to April 2017 due to the resurfacing of the runway. However, a gradual revival of earnings from passenger

Table 5.7
Current and Capital Account

US$ million

Item	2016 (a)			2017 (b)		
	Credit	Debit	Net	Credit	Debit	Net
Goods and Services	**17,448**	**23,442**	**-5,994**	**19,120**	**25,401**	**-6,281**
Goods	**10,310**	**19,183**	**-8,873**	**11,360**	**20,980**	**-9,619**
General merchandise	10,310	18,809	-8,499	11,360	20,330	-8,970
Non-monetary gold	-	374	-374	-	650	-650
Services	**7,138**	**4,259**	**2,879**	**7,760**	**4,421**	**3,338**
Transport	2,250	1,618	632	2,376	1,688	688
Sea transport	1,059	779	281	1,096	790	306
Freight	1,059	779	281	1,096	790	306
Air transport	1,191	840	351	1,280	898	382
Passenger	1,073	753	320	1,158	810	348
Freight	118	87	31	122	88	34
Travel (c)	3,518	1,542	1,977	3,925	1,599	2,326
Construction	63	29	34	69	32	37
Insurance and pension services	121	89	32	123	94	29
Financial services	252	403	-151	263	415	-152
Telecommunications and computer services	858	443	416	926	455	471
Telecommunications	134	105	29	140	110	30
Computer services	724	337	387	786	345	440
Other business services	42	67	-25	44	69	-25
Government goods and services n.i.e.	33	68	-35	34	69	-35
Primary Income	**127**	**2,329**	**-2,202**	**160**	**2,515**	**-2,355**
Compensation of employees	20	88	-67	26	96	-70
Investment income	107	2,241	-2,134	134	2,418	-2,285
Direct investment	15	949	-935	14	934	-920
Dividends	15	500	-485	14	431	-417
Reinvested earnings	-	450	-450	-	503	-503
Portfolio investment	-	829	-829	-	952	-952
Equity	-	73	-73	-	80	-80
Interest	-	756	-756	-	873	-873
Short term	-	1	-1	-	6	-6
Long term	-	755	-755	-	866	-866
Other investment	45	462	-418	55	532	-477
Reserve assets	47	-	47	64	-	64
Secondary Income	**7,260**	**807**	**6,453**	**7,175**	**848**	**6,327**
General government	19	-	19	11	-	11
Workers' remittances	7,242	807	6,434	7,164	848	6,316
Current Account	**24,835**	**26,578**	**-1,742**	**26,455**	**28,764**	**-2,309**
Capital Account	**56**	**31**	**25**	**40**	**29**	**11**
Capital transfers	56	31	25	40	29	11
General government	35	-	35	20	-	20
Corporations and households	21	31	-10	20	29	-9
Current and Capital Account	**24,892**	**26,609**	**-1,717**	**26,495**	**28,793**	**-2,298**

(a) Revised
(b) Provisional
(c) Passenger services provided to non-residents are included in transport services.

Source: Central Bank of Sri Lanka

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fares was witnessed towards the latter part of the year. The satisfactory performance related to passenger fares can be mainly attributable to the upward revision of airfares during the year and the increased number of passengers travelling to Sri Lanka. This improvement was also supplemented by the expansion in the number of destinations served by SriLankan Airlines reaching the highest number of destinations in Sri Lanka's aviation history. These new destinations included Melbourne, Australia and several cities in India. Moreover, SriLankan Airlines acquired five new fuel-efficient aircrafts in 2017, with a view to enhancing its operational efficiency. These efficiency improvement measures together with the widened regional presence and increased flight frequencies are expected to augment the revenue generation capacity of air transport sub sector over the medium term.

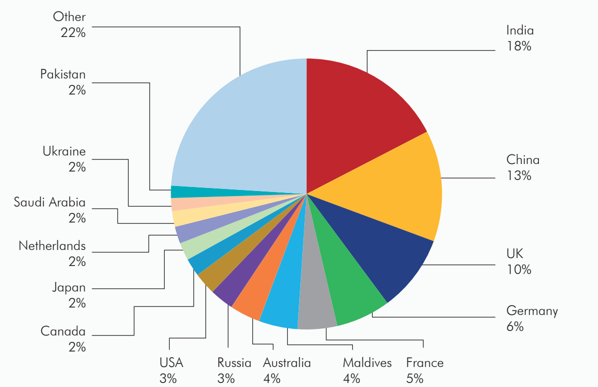
Inflows on account of freight charges, increased in 2017 as a result of increased cargo, container and transshipment volumes handled at the port of Colombo. Accordingly, gross inflows from freight charges, with respect to both port and airport related activities, increased by 3.4 per cent to US dollars 1,217 million in 2017. During the year, the port of Colombo marked the achievement of handling over 6 million TEUs for the first time in the history of the port, contributing towards the expansion of the maritime services sector. Expansion in the container and cargo handling capacity of the Colombo port continued to support the growth momentum in the maritime sector. Meanwhile, Sri Lanka became the best-connected country in terms of maritime transportation in the South Asian region surpassing India, after being ranked 15th in the global "Liner Shipping Connectivity Index 2017" published by the United Nations Conference on Trade and Development (UNCTAD).

Travel and Tourism

The tourism industry, remained the third largest foreign exchange earner to the country, despite recording a moderate growth of tourist arrivals in 2017. Although tourist arrivals recorded highest annual arrivals of 2,116,407 in 2017, the year-on-year growth in arrivals moderated to 3.2 per cent. Flight cancellations and delays at the BIA, caused by partial operation of the Airport till April 2017 owing to repairs and the upgrade of the runaway, as well as the breakout of the dengue epidemic in mid-2017, partly contributed to the sluggish performance in the tourism industry. However, the arrivals showed some recovery, recording the highest ever monthly arrivals during December 2017.

Tourist arrivals from all major regions, except the Middle East, increased in 2017. Western Europe continued to be the largest tourist origin for Sri Lanka, representing 32.2 per cent of total tourist arrivals, which grew at 5.8 per cent to 680,901 arrivals. Tourist arrivals from South Asia, the second largest tourist origin of Sri Lanka, recorded a marginal growth of 0.9 per cent, in 2017, although the share of arrivals declined to 24.5 per cent from 25.0 per cent in 2016. The share of tourist arrivals from East Asia that has continued to increase since 2010 accounted for 21.0 per cent of total arrivals in 2017, while recording moderate growth of 4.5 per cent, led by arrivals from Indonesia and the Philippines. India maintained its lead as the prime tourist source, contributing mostly to the growth with 384,628 arrivals in 2017, while China remained the second largest origin albeit recording a marginal decline, followed by the UK, Germany and France. These five largest tourist source destinations together accounted for 51.2 per cent of tourist arrivals to Sri Lanka in 2017. Meanwhile, arrivals from the Maldives, the seventh largest tourist origin of Sri Lanka,

Chart 5.9
Tourist Arrivals by Country - 2017



Source : Sri Lanka Tourism Development Authority

Chart 5.10
Tourist Arrivals and Earnings from Tourism

Source : Sri Lanka Tourism Development Authority

declined in 2017. In terms of the purpose of visit to Sri Lanka, a majority of tourists (83.9 per cent) visited the country for leisure. While, tourist arrivals for business purposes accounted for 2.9 per cent, the share of tourist arrivals for other purposes, such as visiting friends and relatives, religious and cultural purposes, health, education and sports, was 13.2 per cent of total arrivals in 2017.

Despite a lower than expected growth in tourist arrivals, earnings from tourism remained healthy with increased average spending and duration of stay by tourists during 2017. Earnings from tourism increased by 11.6 per cent to US dollars 3,925 million in 2017, in comparison to US dollars 3,518 million in 2016. In 2017, the average spending per tourist rose to US dollars 170.1 per day, from US dollars 168.2 per day in 2016, according to the latest annual survey on tourist spending and duration of stay, conducted by the Sri Lanka Tourism Development Authority (SLTDA). Further, the average duration of stay by a tourist was estimated at 10.9 days in 2017, in comparison to 10.2 days in 2016. Tourist earnings are expected to grow steadily over the medium-term complemented by targeted promotion campaigns and continued investment in upgrading and expanding tourism related infrastructure. Meanwhile, outflows related to travel are also estimated to have increased by 3.7 per cent to US dollars 1,599 million in 2017. Given these developments, the travel and tourism sub sector recorded a surplus of US dollars 2,326 million in 2017.

Investment in the tourism sector continued to expand further in 2017. Since the initiation of the One Stop Unit (OSU) at the SLTDA in 2010, which was a centralised promotion and facilitation centre established to assist potential investors who are interested in investing in the tourism industry, about 639 project proposals have been received by this institution. Out of these, 539 hotel projects with capacity of 29,946 rooms were approved by end-2017, entailing a total investment of US dollars 5,191 million. During the year, investment proposals for 95 new hotel projects were received, entailing an investment value of US dollars 314 million. The final approvals were granted for 45 hotel projects with 2,393 rooms, with a total value of US dollars 380 million, in 2017, in comparison to 41 projects amounting to US dollars 126 million approved in 2016. Several international hotels, including Shangri-La Colombo and Movenpick commenced their operations, while several major hotel projects, such as Hyatt, Sheraton, ITC and NEXT continued construction work during the year. Further, supplementary establishments, including boutique villas, guest houses, home stays, heritage homes, bungalows and rented apartments, increased by 135 to 1,693, in 2017, resulting in an increase in total room capacity by 974 rooms to 12,509.

Investment into tourism development projects at the provincial level also continued during 2017. Integrated tourism development projects such as Dedduwa, which is considered Sri Lanka's largest tourism project so far, has completed its land acquisition process. In addition, locations have been identified for other integrated development projects in Iranawila, Akurala, Zone 02 of Kalpitiya and Kuchchaweli. Further, SLTDA is in the process of developing separate Tourism Development Master Plans for Ella, Arugambay, Kalpitiya, Nuwara Eliya, Beruwala, Hikkaduwa and Pinnawala areas, considering their uniqueness to attract tourists.

Several policy initiatives and actions were implemented in 2017 to harness the potential of Sri Lanka's tourism industry. The New Tourism Strategic Plan (TSP) 2017-2020 was introduced to facilitate Tourism Vision 2025 and help achieve the United Nations' Sustainable Development Goals on tourism. Accordingly, it is expected to raise earnings from tourism up to US dollars 7 billion, employ 600,000 workers in support industries, and to increase daily spending per tourist to US dollars 210 by 2020. Further, the NES, which is to be implemented in 2018, has identified wellness tourism among its six focus sectors. Some of the recommendations of these policy initiatives have already been considered and required funds have been allocated through the Budget 2018. Activities related to the absorption of informal sector tourist establishments to the formal sector, tourism mobile services to expedite the inspection, registration and licensing process and registration of tourist friendly eating places were continued during 2017. Meanwhile, the Sri Lanka Tourism Promotion Bureau (SLTPB) continued its country specific promotional activities in 32 identified markets in 2017, including participation in trade fairs, road shows and promotions. The SLTPB, the Singapore Cooperation Enterprise and Temasek Foundation International, joined a partnership in March 2017 to share experiences of Singapore in marketing and promote tourism through digital modes. Meanwhile, 12 cruise ships with around 37,000 passengers were welcomed and serviced at the Colombo port. As a result of tourism promotion campaigns, Sri Lanka received further endorsements and accolades from world renowned tourism related magazines and organisations, such as Bloomberg,

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Table 5.8
Performance in the Tourism Sector

Item	2013	2014	2015	2016	2017 (a)	Y-o-Y Change 2017
Tourist Arrivals (No.)	1,274,593	1,527,153	1,798,380	2,050,832	2,116,407	3.2
Arrivals by Purpose of Visit						
Pleasure	915,208	1,037,644	1,198,240	1,710,027	1,776,503	3.9
Business	67,946	20,270	23,323	37,121	60,940	64.2
Other	291,439	469,239	576,817	303,684	278,964	-8.1
Tourist Guest Nights ('000)	10,909	15,119	18,163	20,918	23,068	10.3
Room Occupancy Rate (%)	71.7	74.3	74.5	74.8	73.3	-2.0
Gross Tourist Receipts (Rs. million)	221,720	317,479	405,492	512,373	598,143	16.7
Per Capita Tourist Receipts (Rs.)	173,954	207,889	225,476	249,837	282,622	13.1
Total Employment (No.) (b)	270,150	299,890	319,436	335,659	359,215	7.0
Direct Employment	112,550	129,790	135,930	146,115	156,369	7.0
Indirect Employment	157,600	170,100	183,506	189,544	202,846	7.0

(a) Provisional
(b) Estimates

Sources: Sri Lanka Tourism Development Authority
Central Bank of Sri Lanka

National Geographic and Vogue. In particular, Sri Lanka was selected as the "Asia's Leading Destination" at World Travel Awards Asia in 2017. Further, the SLTPB expects to appoint "Destination Representation Companies" in several countries including the UK, Germany, France and Australia, in 2018, to ensure the continuous presence of Sri Lanka in these countries.

Although the tourism sector remains a promising foreign exchange earner of the economy, Sri Lanka has not yet tapped its full potential in the global market. Sri Lanka attracted over 2 million tourists in 2016 and 2017, but countries smaller than Sri Lanka in the South East Asian region, such as Singapore, Taiwan and Hong Kong, attract over 10 million tourists per year. Therefore, to reap the benefit of the untapped potential of the Sri Lankan tourism industry, it is vital to expedite the implementation of a strategic approach addressed through the TSP 2017-2020. A coordinated effort is needed between the government and tourism industry stakeholders, through Public Private Partnership (PPP) ventures to achieve sustainable tourism targets of the TSP by 2020. In addition, Sri Lanka needs to explore potential areas of water related tourism activities such as cruise tourism, whale and dolphin watching, diving and snorkelling, kite surfing as well as pilgrimage tourism, culinary tourism, bird watching, wedding tourism, film tourism and MICE (Meetings, Incentives, Conferences and Events) tourism in order to thrive as the country's key foreign exchange earner.

Telecommunications, Computer and Information Services

Being one of the key growth drivers within services exports, earnings from telecommunication, computer and information services demonstrated a steady growth in 2017. Total earnings from the export of telecommunications, computer and information services amounted to US dollars 926 million in 2017, registering a growth of 7.8 per cent over 2016. The telecommunications sub-sector grew moderately during the year with total earnings increasing to US dollars 140 million from US dollars 134 million in 2016. This growth mainly originated from increased usage of internet based communication facilities supported by broadband data services. Meanwhile, a drastic decline in the usage of International Direct Dialling (IDD) services restricted the expansion of earnings to a certain extent. In 2017, Sri Lanka's telecommunications industry initiated the process of adopting fifth generation (5G) technology which will enable futuristic technology applications such as the "Internet of Things" based autonomous transport, industry automation using robotics and digital business solutions. Moreover, as a step towards becoming the digital hub of the region, South Asia's first state-of-the-art submarine cable depot is planned to be established in the port of Galle. These developments are expected to boost the revenue generation capacity of the telecommunications industry over the medium-term through enhanced global connectivity.

The computer and information services sub-sector also maintained its growth momentum in 2017. Accordingly, gross inflows to the computer and information services improved by 8.5 per cent to US dollars 786 million during the year. Rapid expansion of Software and Information Technology Enabled Services (ITES) that includes Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) continued to contribute towards the healthy growth in this sector. In 2017, Sri Lanka was ranked eleventh, moving up three notches from 2016, in A. T. Kearney's "Global Services Location Index", a study that analyses and tracks the contours of the offshoring landscape in 55 countries across three major categories: financial attractiveness, people skills and availability, and business environment. This study has highlighted comparatively low labour costs and longer tax holidays as factors that make Sri Lanka an attractive outsourcing destination over its regional peers. Moreover, with a view to unleashing the full potential of the ITES industry, the government in its National Budget 2018, has proposed to establish an angel fund called "IT Initiative" to provide financial assistance to startups, and small and medium sized companies in the IT industry.

5.4.2 Primary Income

In line with the trend observed in recent years, the deficit in the primary income account widened, with increased reinvested earnings by direct investment enterprises (DIEs) and increased interest payments on ISBs and project loans of the government. Accordingly, the deficit in the primary income account widened to US dollars 2,355 million in 2017 from US dollars 2,202 million in 2016. Despite the increase in outflow in the primary income account, the increase in reinvested earnings by DIEs can be considered positively as the same amount is reflected in the financial account as an increase in direct investment. Although the profitability of DIEs in 2017 remained similar to the level recorded in the previous year, DIEs opted for lesser declaration of dividends and a higher reinvestment of earnings during the year. A notable increase in interest payments on portfolio investment was also observed in 2017 as coupon payments on ISBs issued by the government increased in 2017, with coupon payments of the new issuances of ISBs in July 2016 and May 2017 being made in addition to the coupon payments in 2016. Meanwhile, coupon payments on international bonds issued by the banking sector reduced with the maturity of a US dollars 500 million international bond issued by the Bank of Ceylon (BOC) in 2017. Interest payments on foreign loans obtained by the government also increased as a result of the new foreign currency term financing facilities and project loans obtained by the government. Interest payments by commercial banks decreased during the year with a reduction in their long term liabilities compared to the previous year. However, the widening of the primary income deficit was moderated to a certain extent by increased inflows to the primary income account. Return on investment of reserve assets increased in 2017 reflecting the increase in gross official reserve levels during the year compared to 2016. This was further supported by increased income on foreign assets held by the banking sector, possibly reflecting the effect of increased global interest rates during 2017.

5.4.3 Secondary Income

The secondary income account, which consists of private and government transfers, remained subdued during 2017 with modest performance in workers' remittances. Workers' remittances, which account for the majority of inflows to the secondary income account declined by 1.1 per cent to US dollars 7,164 million in 2017 as opposed to the growth of 3.7 per cent witnessed in 2016. The downward trend observed in workers' remittances can be largely attributable to the sluggishness of the global economy and prevailing geopolitical uncertainties in the Middle Eastern region, coupled with the low oil prices, which have led to a decline in the income level of source countries. Moreover, according to data provided by the Sri Lanka Bureau of Foreign Employment, labour migration for foreign employment under all skill categories declined, reducing overall labour migration significantly by 12.6 per cent during 2017 in comparison to the previous year. Expansion in the domestic labour market and continuation of several policy measures taken by the government to discourage the migration of housemaids and unskilled workers are some of the main reasons for the decline in departures for foreign employment. These policy measures included the provision of family background reports and the imposition of a minimum age which mainly impacted female migrant workers. Further, foreign employment opportunities offered for Sri Lankans during the year have been limited due to barriers such as the rise in the number of Sri Lankan illegal migrant workers and visa over-stayers, acute shortage of skilled labour demanded by foreign employers and inadequate language proficiency of migrant employees, particularly in the unskilled employee category including housemaids, causing labour migration to decline. Meanwhile, the receipts in the form of government transfers also declined during the year. As a result, inflows to the secondary income account amounted to US dollars 7,175 million during the year 2017, marking a decline of 1.2 per cent over the preceding year.

5.5 Current Account Balance

Widened trade deficit, and higher outflows from the primary income account coupled with the moderation in tourist earnings and the decline in workers' remittances weighed down the external current account in 2017. Despite the gradual pickup in export earnings since March 2017, the trade balance deteriorated substantially as increased export earnings were insufficient to offset the notable increase in import expenditure. The upsurge in import expenditure was mainly driven by weather related imports such as rice and fuel. Higher importation of gold and base metals also contributed to the significant rise in import expenditure in 2017. Meanwhile, inflows to the secondary income account originating from workers' remittances were subdued during the year whilst the deficit in the primary income account widened due to increased reinvested earnings of DIEs and interest payments. However, the growth in earnings from tourism, transport and computer services sub-sectors helped reduce the deficit in the external current account to a certain extent. Reflecting these developments, the current account deficit widened to US dollars 2,309 million in 2017, from US dollars 1,742 million in 2016. As a per cent of GDP, the current account deficit, in 2017, was 2.6 per cent, in comparison to 2.1 per cent in 2016.

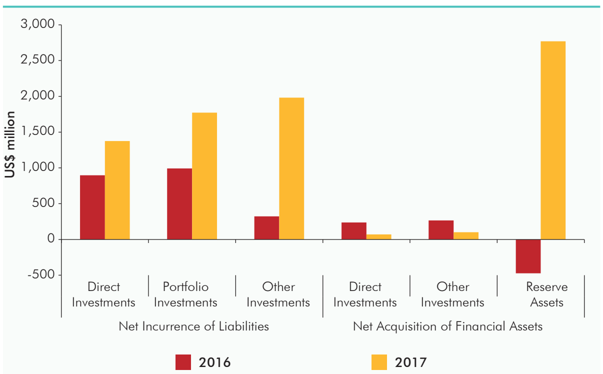
5.6 Capital Account Balance

The capital account remained subdued with lower inflows in the form of capital transfers in 2017. Capital transfers to both the government and the private sector recorded a marginal decline during 2017 vis-a-vis the previous year. Accordingly, the surplus in the capital account amounted to US dollars 11 million in 2017 in comparison to US dollars 25 million in 2016.

5.7 Financial Account

Both net incurrence of liabilities and net acquisition of assets to the financial account increased significantly in 2017, in comparison to 2016. Higher inflows to the financial account, as against outflows witnessed during 2017, resulted in a significant increase in net incurrence of liabilities in 2017. Further, the significant accumulation of gross official reserves resulted in a notable

Chart 5.11
Financial Account



Source : Central Bank of Sri Lanka

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Table 5.9.A
Financial Account

US$ million

Item	2016 (a) Net acquisition of financial assets	2016 (a) Net incurrence of liabilities	2017 (b) Net acquisition of financial assets	2017 (b) Net incurrence of liabilities
Financial Account	31	2,213	2,944	5,128
Direct Investment	**237**	**897**	**72**	**1,375**
Equity and investment fund shares	235	710	68	535
Equity other than reinvestment of earnings	235	260	68	32
Direct investor in direct investment enterprise	235	260	68	32
Reinvestment of earnings	-	450	-	503
Debt instruments	2	187	4	840
Direct investor in direct investment enterprise	2	187	4	840
Portfolio Investment	**...**	**993**	**...**	**1,772**
Equity and investment fund shares	-	24	-	359
Debt securities	...	969	...	1,413
Deposit-taking corporations	...	-	...	-500
Long term	...	-	...	-500
General government	-	969	-	1,913
Short term (Treasury bills)	-	36	-	81
Long term	-	932	-	1,832
Treasury bonds	-	-361	-	360
Sri Lanka Development bonds	-	-207	-	-28
Sovereign bonds	-	1,500	-	1,500
Financial Derivatives	**-**	**-**	**-**	**-**
Other Investment	**266**	**323**	**102**	**1,981**
Currency and deposits	5	-609	78	-228
Central Bank	-	-701	-	-402
Short term	-	-1	-	-2
Long term	-	-700	-	-400
Deposit-taking corporations	5	92	78	173
Short term	-4	92	11	173
Long term	9	-	67	-

Continued on page - 170

Memorandum Items	2016 (a)	2017 (b)
Foreign direct investment (FDI)		
Equity	260	32
Reinvestment of earnings	450	503
Intercompany loans	276	959
Intercompany loan repayments	-88	-119
Total FDI (1)	**897**	**1,375**
Loans to BOI companies (2)	181	538
Total FDI, including loans to BOI companies (1 + 2) (c)	**1,078**	**1,913**
Total net inflows to the CSE	**19**	**279**
Direct investment	-5	-80
Portfolio Investment	24	359
Net Foreign investments in rupee denominated government securities (Treasury Bills and Bonds)	**-324**	**441**
Foreign purchases	1,238	1,667
Foreign sales	1,562	1,226

(a) Revised
(b) Provisional
(c) The difference with the BOI estimates is due to differences in coverage and compilation methodologies.

Source: Central Bank of Sri Lanka

increase in the net acquisition of assets during the year. On a net basis, incurrence of liabilities amounted to US dollars 5,128 million in 2017, compared to US dollars 2,213 million in 2016, while net acquisition of financial assets amounted to US dollars 2,944 million, compared to US dollars 31 million in 2016. Significant disinvestments by foreign investors from the government securities market, witnessed in the fourth quarter of 2016, continued in the first quarter of 2017, against the backdrop of heightened anticipation of further interest rate hikes by the Federal Reserve of the United States. This necessitated continuous intervention from the Central Bank in the foreign exchange market, resulting in a sharp decline in gross official reserves in the first quarter of 2017. In addition, a currency swap arrangement with the Reserve Bank of India (RBI) amounting to US dollars 400 million also matured in the first quarter of 2017. However, inflows to the financial account increased significantly from the second quarter of 2017, with a notable reversal of outflows in respect of foreign investments in government securities, reflecting increased investor confidence arising from improved overall macroeconomic stability and the continuation of the IMF EFF programme, with two more tranches being approved during 2017. The financial account was further strengthened with the highest ever annual inflow of FDI, supported by foreign investments in the Hambantota Port Project, Colombo Port City Project and investments in the telecommunications sector and other mixed development projects. In addition, the issuance of an ISB amounting to US dollars 1.5 billion and the receipt of US dollars 1 billion from the proceeds of a foreign currency term financing facility also supported the financial account. An increase was observed in both foreign loan inflows and repayments by the private sector and state owned business enterprises (SOBEs) during the year. Further, the banking sector increased its foreign liabilities in the form of foreign loans and trade credits and advances while the BOC repaid an international bond of US dollars 500 million during 2017. These developments together with significant net purchases from the foreign exchange market by the Central Bank from March 2017 onwards resulted in a significant increase in gross official reserves by end-2017.

5.7.1 Direct Investment

Foreign direct investment (FDI), which includes foreign borrowings of Board of Investment (BOI) companies, recorded the highest inflows in history in 2017. Accordingly, total FDI inflows, including foreign loans received by companies registered with the BOI, amounted to US dollars 1,913 million in 2017, in comparison to US dollars 1,078 million in 2016. FDI, excluding foreign loans obtained by BOI companies, also recorded a noteworthy increase amounting to US dollars 1,375 million, in 2017, in comparison to US dollars 897 million in 2016. FDI inflows, excluding foreign loans to BOI companies, comprised of US dollars 32 million of net investments in equity, US dollars 503 million of reinvested earnings and US dollars 840 million of net intercompany debt during the year. Further, foreign loans obtained by BOI companies from non-related parties amounted to US dollars 538 million in 2017 compared to US dollars 181 million in 2016. Major inflows of FDI included receipts to Hambantota port project and the Colombo Port City project. Both projects are expected to attract a significant amount of FDI in 2018 and beyond, thereby supporting the sustainable improvement in the external sector through much needed non-debt creating foreign exchange inflows. On a sectoral basis, major inflows were received by ports, housing and property development, telecommunications and hotel sectors. In addition, the manufacturing sector received a moderate amount of FDI during the year. Based on the origin of the immediate investor, China, Hong Kong, India, Malaysia and Singapore were the top five source countries of FDI in 2017. Meanwhile, net acquisition of assets in the form of direct investment abroad by Sri Lankan companies amounted to US dollars 72 million, compared to US dollars 237 million in 2016. FDI outflows in 2016 were considerably higher than the normal trend in 2017, particularly due to some major outward investment by the Sri Lankan apparel sector.

5.7.2 Portfolio Investment

Equity

Portfolio investment in equity, through non-FDI foreign investment in the CSE, recorded a notable increase in 2017. Portfolio investment in equity accounts for individual foreign investment of less than 10 per cent of the total shareholding of a Sri Lankan enterprise and consists of foreign investments in the CSE, that are not classified as direct investment transactions. Accordingly, portfolio investment in the form of equity recorded a net inflow of US dollars 359 million during 2017. This included net inflows to the secondary market amounting to US dollars 202 million and primary market inflows amounting to US dollars 157 million. This was a sharp increase compared to the moderate net inflow of portfolio investment in the form of equity amounting to US dollars 24 million in 2016. The positive change in investor sentiment from March 2017 onwards, which was also witnessed in foreign investment in the government securities market, mainly contributed to the healthy growth in foreign investment in both FDI and portfolio equity investment during 2017.

Debt Securities

Foreign investment in debt securities was the main inflow to the financial account in 2017. Sri Lanka successfully issued the eleventh ISB amounting to US dollars 1.5 billion, while receiving a significant amount of foreign investment in Treasury bonds in 2017. The eleventh ISB with a maturity period of ten years was issued at a competitive coupon rate of 6.20 per cent during a time of increasing global interest rates, exhibiting continued investor confidence on Sri Lanka's macroeconomic fundamentals. This was complemented with significant foreign investment in Treasury bonds, amounting to a net inflow of US dollars 360 million in 2017, compared to a net outflow of US dollars 361 million in 2016. Overall, foreign investment in Treasury bills, Treasury bonds and Sri Lanka Development Bonds (SLDB) amounted to a net inflow of US dollars 413 million in 2017, despite a net outflow of US dollars 415 million in the first quarter of 2017. The main outflow in respect of debt securities during 2017 was the maturity of a five-year international bond of US dollars 500 million issued by the BOC. Meanwhile, assets in the form of securities held by deposit taking corporations remained relatively unchanged during 2017.

5.7.3 Other Investment

Currency and Deposits

Currency and deposit liabilities decreased while assets in the form of currency and deposits increased in 2017. Currency and deposit liabilities of the Central Bank declined with the maturity of the remaining balance of the international currency swap arrangement with RBI amounting to US dollars 400 million. Meanwhile, both liabilities and assets of deposit taking corporations increased in 2017. Accordingly, currency and deposit liabilities of deposit taking corporations increased by US dollars 173 million, while currency and deposits in the form of assets also increased by US dollars 78 million.

Table 5.9.B
Financial Account

US$ million

Item	2016 (a) Net acquisition of financial assets	2016 (a) Net incurrence of liabilities	2017 (b) Net acquisition of financial assets	2017 (b) Net incurrence of liabilities
Other Investment (Continued from page - 168)				
Loans	-	793	-	1,839
Central Bank	-	-123	-	184
Credit and loans with the IMF	-	-123	-	184
Stand by Arrangement	-	-455	-	-235
Extended Fund Facility	-	332	-	419
Deposit-taking corporations	-	-507	-	271
Short term	-	-608	-	-280
Long term	-	100	-	551
General government	-	1,287	-	1,215
Long term	-	1,287	-	1,215
Other sectors (c)	-	136	-	170
Long term	-	136	-	170
Trade credit and advances	-118	84	54	309
Deposit-taking corporations	-3	-	17	-
Short term	-3	-	17	-
Other sectors (d)	-115	84	38	309
Short term	-115	84	38	309
Other accounts receivable/payable	379	55	-31	61
Central Bank	-	55	-	61
Short term (e)	-	55	-	61
Deposit-taking corporations	379	-	-31	-
Short term	379	-	-31	-
Special Drawing Rights		-		-
Reserve Assets	-472		2,771	
Monetary gold	-		-	
Special Drawing Rights	-5		2	
Reserve position in the IMF	-		-	
Other reserve assets	-467		2,768	
Currency and deposits	-1,267		393	
Claims on monetary authorities	-1,365		859	
Claims on other entities	98		-465	
Securities	800		2,375	
Debt securities	800		2,375	
Long term	800		2,375	
Financial Account (net)	-2,182		-2,184	
Memorandum Items				
Long term loans to the government (net)		1,287		1,215
Inflows (Disbursements)		2,163		2,535
Project Loans		1,278		1,535
Foreign Currency Term Financing Facilities		700		1,000
Programme Financing Loans		185		-
Repayments		876		1,320

(a) Revised
(b) Provisional
(c) Include State Owned Business Enterprises (SOBEs) and private sector companies.
(d) Include trade credits received by the Ceylon Petroleum Corporation (CPC) and other private companies.
(e) Net transactions of Asian Clearing Union (ACU) liabilities

Source: Central Bank of Sri Lanka

Loans

Total loan inflows to the financial account were significantly higher with substantial loan inflows to the government, Central Bank and the private sector in 2017. Foreign loan inflows to the government amounted to US dollars

2,535 million, which consisted of a sum of US dollars one billion received from two tranches of a foreign currency term financing facility and the rest in the form of long term project loans. Major inflows to government projects during 2017 included loan proceeds for the construction of extension of southern expressway section 1, 2 and 4, construction of outer circular highway project phase III, integrated road investment programme - tranche 3, Hambantota hub development project, second health sector development project, greater Colombo transmission and distribution loss reduction project, water supply and sanitation improvement project and additional financing for dam safety and water resources planning project. Meanwhile, the Central Bank, on behalf of the government of Sri Lanka, received two tranches under the IMF EFF programme amounting to US dollars 419 million in 2017. In terms of loan inflows to the private sector and SOBEs, the private sector received US dollars 535 million in 2017, while loan inflows of US dollars 182 million was received by SOBEs during the year.

Repayment of foreign loans by all sectors remained significantly high in 2017. Total foreign loan repayments by the government amounted to US dollars 1,320 million in 2017, and consisted of repayments on account of the foreign currency term financing facility of US dollars 280 million and the remainder as repayments in respect of long term project loans. The Central Bank completed the repayment of the IMF Stand-By Arrangement facility from 2009-2012 in full by June 2017. Meanwhile, foreign loans obtained by deposit taking corporations recorded a net inflow of US dollars 271 million in 2017. Repayments of foreign loans by the private sector and SOBEs amounted to US dollars 362 million and US dollars 186 million, respectively, during the year.

Table 5.10
Major Projects Financed with Foreign Borrowings during 2017

Lender and Project	Amount Disbursed US$ million
Government Projects - Total	1,535
of which;	
The Export - Import Bank of China	491
of which;	
Construction of Extension of Southern Expressway - Section 1	147
Construction of Extension of Southern Expressway - Section 4	107
Construction of Outer Circular Highway Project Phase III	79
Construction of Extension of Southern Expressway - Section 2	62
Hambantota Hub Development Project	59
Greater Kurunegala Water Supply and Sewerage Project	18
Asian Development Bank	360
of which;	
Integrated Road Investment Programme - Tranche 3	91
Clean Energy and Network Efficiency Improvement Project	38
Line of Credit for Small and Medium Sized Enterprises	38
Intergrated Road Investment Programme - Tranche 2	30
Education Sector Development Programme	29
International Development Association	207
of which;	
Second Health Sector Development Project	62
Water Supply and Sanitation Improvement Project	35
Additional Financing for Dam Safety & Water Resources Planning Project	25
Climate Resilience Improvement Management Project	20
Skills Development Project - Portion A	19
Government of Japan	156
of which;	
Greater Colombo Transmission and Distribution Loss Reduction Project	52
New Bridge Construction Project over the Kelani River	48
Major Bridges Construction Project of the National Road Network	18
Government of India	62
of which;	
Restoration of Northern Railway Services	35
Procurement of Two Advanced Offshore Patrol Vessels	17
Deutsche Bank AG	35
Construction of 537 Steel Beam Bridges	35
Calyon Credit Agricole	28
of which;	
Implementation of Greater Matale Water Supply Project	15
Kingdom of Spain	25
of which;	
Supply of Three Flyovers	17
State Owned Business Enterprises - Total	182
SriLankan Airlines	125
Hambanthota Port Development Project - Phase II	57

Source: External Resources Department of Ministry of National Policies and Economic Affairs

Overall, inflows to the financial account in the form of loans were higher than loan repayments, and the resultant net inflow of foreign loans was higher in 2017 compared to 2016. Compared to a net loan inflow of US dollars 793 million in 2016, net inflow of loans to the financial account in 2017 amounted to US dollars 1,839 million. This increase consisted of

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net increases in loan liabilities by the government, the Central Bank, deposit taking corporations and private sector, amounting to US dollars 1,215 million, US dollars 184 million, US dollars 271 million and US dollars 173 million, respectively, while SOBEs recorded a net loan outflow of US dollars 4 million in 2017.

Trade Credit and Advances and Other Accounts Receivable / Payable

Trade credits and advances received from non-residents and extended to non-residents recorded an increase in 2017. Trade credits and advances received from non-residents rose primarily due to higher oil purchases on credit by the CPC, in comparison to repayments made during 2017. Trade credits received by private companies and SOBEs other than CPC also increased during 2017 compared to a reduction in 2016, in line with the notable growth in goods imports during the year. Consequently, net incurrence in trade credit and advances amounted to US dollars 309 million, in 2017, compared to an increase of US dollars 84 million in 2016. Meanwhile, trade credits and advances given by Sri Lankan companies and the banking sector to non-residents also increased by US dollars 54 million in comparison to a decrease of US dollars 118 million in 2016. Trade credits to non-residents were primarily provided by Sri Lankan companies in the apparel sector in 2017. Meanwhile, other accounts payable, primarily consisting of Asian Clearing Union (ACU) liabilities managed by the Central Bank increased by US dollars 61 million, while other accounts receivable by deposit taking corporations reduced by US dollars 31 million in 2017.

5.7.4 Reserve Assets

In line with the increase in the reserve asset position, transactions related to reserve assets recorded a significant increase during 2017. The net increase in reserve asset transactions of US dollars 2,771 million was a significant contrast to the net decline in reserve assets transactions of US dollars 472 million in 2016. The increase in reserve assets constituted an increase in fixed income securities transactions by US dollars 2,375 million and an increase in currency and deposits by US dollars 393 million. The increased inflows to gross official reserves facilitated higher investment in US dollar denominated long term fixed income securities by the Central Bank during the year. Similar to 2016, there were no transactions in monetary gold during 2017.

5.8 Overall Balance

Reflecting improvements in the financial account, the overall balance recorded a surplus in 2017, after recording deficits for two consecutive years. Significant inflows to the financial account, including the proceeds of the ISB, proceeds from the foreign currency term financing facility, net project and programme loans received by the government, issuance of Sri Lanka Development Bonds and a significant net absorption of foreign exchange by the Central Bank resulted in net international reserves increasing to US dollars 6,597 million by end-2017 from US dollars 4,529 million at end-2016. Consequently, the overall balance, which is also the difference between the change in net international reserves during the two periods, amounted to US dollars 2,068 million in 2017 against a deficit of US dollars 500 million in 2016.

5.9 International Investment Position

In terms of the International Investment Position (IIP), which shows the value and composition of the country's position in

Table 5.11
International Investment Position

US$ million
(End period position)

Item	2016 (a)		2017 (b)	
	Assets	Liabilities	Assets	Liabilities
Direct Investment (c)	1,219	9,845	1,278	11,070
Equity and investment fund shares	1,214	7,020	1,268	7,406
Debt instruments	5	2,825	9	3,664
Portfolio Investment	...	13,684	...	15,578
Equity and investment fund shares		1,419		1,491
Other sectors		1,419		1,491
Debt securities (d)	...	12,265	...	14,087
Deposit-taking corporations	...	2,190	...	1,666
Long term	...	2,190	...	1,666
General government		9,903		12,244
Short term		80		167
Long term		9,823		12,077
Other sectors		172		177
Long term		172		177
Financial Derivatives	-	-	-	-
Other Investment	3,028	31,329	3,130	34,073
Currency and Deposits	706	2,442	784	2,213
Central Bank		403		1
Short term		3		1
Long term		400		-
Deposit-taking corporations	706	2,039	784	2,212
Short term	535	2,039	546	2,212
Long term	171		238	
Loans		26,342		28,912
Central Bank		554		765
Credit and loans with the IMF		554		765
Deposit-taking corporations		4,562		4,833
Short term		3,209		2,929
Long term		1,354		1,904
General government		17,295		19,201
Long term		17,295		19,201
Other sectors (e)		3,931		4,114
Long term		3,931		4,114
Trade Credit and Advances	707	1,480	761	1,790
Deposit-taking corporations	93		109	
Short term	93		109	
Other sectors (f)	614	1,480	652	1,790
Short term	614	1,480	652	1,790
Other Accounts Receivable/Payable	1,615	533	1,584	594
Central Bank (g)		533		594
Short term		533		594
Deposit-taking corporations	1,615		1,584	
Short term	1,615		1,584	
Special Drawing Rights		532		563
Reserve Assets	6,019		7,959	
Monetary gold	830		928	
Special Drawing Rights	2		4	
Reserve position in the IMF	64		68	
Other reserve assets	5,122		6,958	
Currency and deposits	2,644		3,037	
Claims on monetary authorities	802		1,660	
Claims on other entities	1,842		1,377	
Securities	2,478		3,921	
Debt securities	2,478		3,921	
Total Assets / Liabilities	10,266	54,857	12,366	60,721
Net International Investment Position		-44,591		-48,355
Memorandum Items				
IIP- Maturity-wise breakdown	10,266	54,857	12,366	60,721
Short term	6,395	8,763	6,925	9,184
Long term	3,871	46,095	5,441	51,537

(a) Revised
(b) Provisional
(c) Includes direct investment position of BOI, CSE and other private companies
(d) Foreign currency debt issuances are based on market value while domestic currency issuances are based on book value.
(e) Includes loans outstanding position of project loans obtained by State Owned Business Enterprises (SOBEs).
(f) Includes outstanding trade credit position of Ceylon Petroleum Corporation and the private sector companies.
(g) Outstanding position of ACU liabilities managed by the Central Bank

Source: Central Bank of Sri Lanka

external assets and liabilities with the rest of the world, Sri Lanka's external liability position as well as the asset position increased as at end-2017 compared to that of 2016. The total foreign assets increased to US dollars 12,366 million, primarily due to the increase in the reserve asset position, while the asset position of direct investment, trade credits and advances, and currency and deposits also contributed to this increase. Meanwhile, the total foreign liability position increased from US dollars 54,857 million at end 2016 to US dollars 60,721 million at end-2017, primarily due to the increase in direct investment, portfolio investment, outstanding loan liabilities and trade credit positions. The net liability position of the IIP increased to US dollars 48,355 million as at end-2017 from US dollars 44,591 million at end-2016, with the increase in the foreign liability position outweighing the increase in the foreign asset position. Despite Sri Lanka's net IIP continuing to be negative, inflows in the form of direct investment and other non-debt creating inflows to the financial account have shown an improvement during the year.

5.9.1 Direct Investment Position

Significant inflow of direct investment resulted in an increase in the direct investment liability position as at end-2017. Accordingly, reflecting the highest historical inflows of annual FDI, increase in direct investment equity as well as outstanding intercompany debt positions, the direct investment liability position increased to US dollars 11,070 million as at end-2017, from US dollars 9,845 million at end-2016. Valuation losses of direct investment in the form of equity were moderated in 2017 compared to significant valuation losses of tradable equity securities in the CSE in 2016. Based on immediate country of investment, Netherlands, India, China, Malaysia and Singapore were the top five countries with the highest direct investment liability stock positions as at end-2017. Meanwhile, direct investment abroad by Sri Lankan residents recorded an outstanding asset position of US dollars 1,278 million by end-2017, an increase of 4.8 per cent from the previous year.

5.9.2 Portfolio Investment Position

The portfolio investment liability position increased with the proceeds from the eleventh ISB and the increase in outstanding foreign investments in treasury bonds while outstanding debt securities position of the banking sector decreased as at end-2017. Accordingly, the stock position of portfolio investment liabilities increased from US dollars 13,684 million at end-2016 to US dollars 15,578 million at end-2017. The portfolio investment equity liability position increased marginally to US dollars 1,491 million by the end of the year as a result of notable valuation losses despite the increase in net inflow of foreign investment to the CSE. Meanwhile, the debt securities liability position increased during 2017 primarily due to the proceeds through the issuance of the ISB amounting to US dollars 1,500 million, and the increase in the outstanding foreign investment position of treasury bonds despite the debt securities liability position of deposit taking corporations recording a decline as a result of the settlement of the International Bond amounting to US dollars 500 million by the BOC during the year. The market value of the outstanding ISBs increased with significant gain in market prices and amounted to US dollars 10,347 million compared to face value of US dollars 9,650 million as at end-2017.

5.9.3 Other Investment Position

Currency and Deposits

The currency and deposit asset position increased while the liability position declined as at the end 2017. The currency and deposit liability position of the Central Bank declined, primarily due to the settlement of the international swap arrangement with RBI amounting to US dollars 400 million in March 2017. The currency and deposit liability position of deposit taking corporations increased to US dollars 2,212 million while the asset position of deposit taking corporations also increased to US dollars 784 million at end-2017, in line with the moderate increase in total assets of the banking sector during 2017.

Loans

The foreign loan liability position in the IIP increased at the end of 2017 primarily due to the increase in the foreign loan liability position of the government, deposit taking corporations and the Central Bank. Accordingly, the foreign loan liability position increased from US dollars 26,342 million at end-2016 to US dollars 28,912 million at the end of 2017. The foreign loan liability position of the government increased to US dollars 19,201 million at end-2017 from US dollars 17,295 million at end-2016, primarily due to new project loans and proceeds of US dollars one billion on account of two new foreign currency term financing facilities. The outstanding government loans denominated in foreign currencies other than US dollars, which constitute around 38 per cent of the total outstanding foreign loans, increased significantly when converted to US dollars as a result of the significant depreciation of the US dollar against all major foreign currencies during 2017. The outstanding foreign loans of deposit taking corporations and private sector corporations also increased during the year. Further, the outstanding loan position of the Central Bank increased due to the receipt of the third and fourth tranches of the IMF

EFF facility while the remaining outstanding liabilities of the IMF Stand-By Arrangement (SBA) facility was fully repaid during 2017.

Trade Credit and Advances

The outstanding liability position of trade credit and advances received, and the asset position of trade credit and advances given increased during 2017. The trade credit and advances liability position of the private sector increased to US dollars 1,790 million at end-2017 from US dollars 1,480 million at end-2016, primarily due to the increase in outstanding trade credits of CPC. Trade credit and advances given by deposit taking corporations and the private sector, which account for the trade credit and advances asset position, increased to US dollars 761 million as at end-2017 from US dollars 707 million at end-2016.

Other Accounts Receivable / Payable and Special Drawing Rights

The outstanding position of other accounts receivable declined while other accounts payable increased in 2017. The outstanding position of other accounts receivable, consisting of short term outstanding positions of deposit taking corporations, declined to US dollars 1,584 million as at end-2017. Meanwhile, the outstanding position of other accounts payable, which consists of ACU related liabilities of the Central Bank, increased to US dollars 594 million at the end of 2017. Further, the outstanding position of Special Drawing Rights increased from US dollars 532 million at end-2016 to US dollars 563 million at end-2017.

5.9.4 Reserve Asset Position

Sri Lanka's gross official reserves improved, both in terms of quantity and quality, and reached a healthy level of US dollars 8.0 billion as at end-2017 from US dollars 6.0 billion at end-2016. The gross official reserves position improved mainly due to the absorption of foreign exchange from the domestic foreign exchange market and other foreign exchange inflows such as proceeds of the ISB, foreign currency term financing facility, IMF EFF facility and the first tranche of the investment proceeds on account of handing over operations of the Hambantota port to the China Merchant Port Holdings Company Ltd. The level of gross official reserves of the country at end-2017 was equivalent to finance 4.6 months of imports of goods. A notable improvement in the quality of reserves was witnessed during the year, with an improvement in the amount of organic reserves in the form of purchases of foreign exchange from the domestic foreign exchange market, amounting to US dollars 1,664 million on a net basis during the year and retiring of foreign exchange swap arrangements with domestic banks by around US dollars 1 billion. The build-up of gross official reserves through direct absorption of foreign exchange enabled the

Table 5.12
Gross Official Reserves, Total Foreign Assets and Overall Balance

(End period position)

	US$ million				
	2013	2014	2015	2016	2017 (a)
1. Government foreign assets	465	635	470	289	488
2. Central Bank foreign assets	7,030	7,573	6,834	5,730	7,470
3. Gross official reserves (1+2)	7,495	8,208	7,304	6,019	7,959
4. Foreign assets of deposit-taking corporations	1,078	1,676	2,033	2,414	2,478
5. Total foreign assets (3+4) (b)	8,573	9,884	9,337	8,433	10,436
6. Reserve related liabilities (c)	2,347	1,691	2,275	1,490	1,361
7. Net International Reserves (NIR) (3-6)	5,148	6,517	5,029	4,529	6,597
8. Overall balance (d)	985	1,369	-1,489	-500	2,068
9. Gross official reserves in months of					
9.1 Import of goods	5.0	5.1	4.6	3.8	4.6
9.2 Import of goods and services	4.2	4.3	3.8	3.1	3.8
10. Total foreign assets in months of					
10.1 Import of goods	5.7	6.1	5.9	5.3	6.0
10.2 Import of goods and services	4.8	5.1	4.9	4.3	4.9

(a) Provisional
(b) Excludes foreign assets in the form of 'Direct investment abroad' and 'Trade credit and advances granted'
(c) The total outstanding debt of the Central Bank, excluding outstanding Special Drawing Rights (SDRs)
(d) Change in NIR position during the period

Source: Central Bank of Sri Lanka

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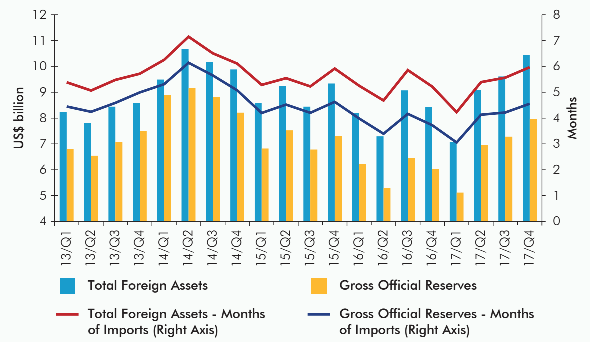
Chart 5.12
Quarterly Gross Official Reserves and Total Foreign Assets



Source : Central Bank of Sri Lanka

Central Bank to meet the net international reserve targets under the IMF EFF programme. Reflecting both quantitative and qualitative improvements in international reserves, the reserve asset position covered 63.3 per cent of the country's short term debt and liabilities as at end-2017. Meanwhile, total foreign assets, which consists of gross official reserves and foreign assets of deposit taking corporations, also increased to US dollars 10.4 billion at end-2017, equivalent to finance 6.0 months of imports, from US dollars 8.4 billion as at end-2016. The notable increase was primarily due to the increase in gross official reserves, while foreign assets of the banking sector remained at similar levels by end-2017, compared to end-2016.

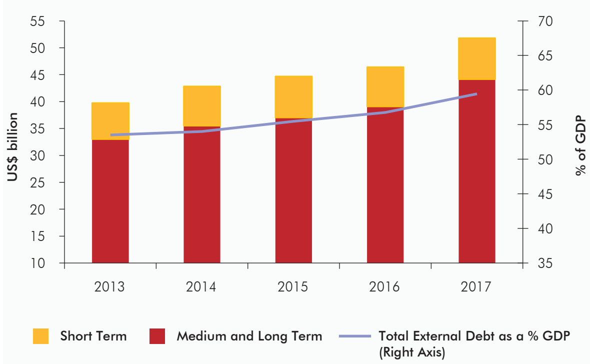
5.10 External Debt and Debt Servicing

5.10.1 External Debt

Sri Lanka's total external debt rose in 2017 mainly with the increase in the external debt of the general government. Total external debt of the country increased by US dollars 5.4 billion to US dollars 51,824 million by end-2017. The government raised around US dollars 4.0 billion in 2017 by issuing an ISB, raising a foreign currency term financing facility and programme and project loans. Positive net inflows to the government securities market further contributed to the higher external debt position of the government. Despite the receipt of US dollars 419 million under the IMF EFF during the year, the outstanding external debt of the Central Bank declined to US dollars 1,924 million by end-2017, from US dollars 2,022 million reported at end-2016, due to the repayment of US dollars 235 million under IMF SBA facility and the settlement of the international foreign currency swap arrangement with RBI amounting to US dollars 400 million. Outstanding external debt of deposit taking corporations declined by US dollars 79 million to US dollars 8,711 million, mainly due to the decline in debt securities holdings of commercial banks. Further, a notable increase was recorded in the outstanding external debt of private sector corporations, SOBEs and intercompany lending of direct investment enterprises during 2017.

With the increase in government external debt, the total outstanding external debt of the country as a percentage of GDP increased to 59.5 per cent by end-2017 from 56.8 per cent at end-2016. However, reflecting a positive development, the long-term portion of the total external debt increased, albeit marginally, to 85.2 per cent by end-2017, compared to 84.2 per cent at end-2016, with a parallel decline in short-term debt, showing a smooth transition towards longer-term maturities. Subsequent to the increase in government

Chart 5.13
External Debt



Source : Central Bank of Sri Lanka

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Table 5.13
Outstanding External Debt Position

US$ million
(End period position)

Item	2016(a)	2017(b)
General Government	**27,197**	**31,444**
Short term	**80**	**167**
Debt securities	80	167
Treasury bills (c)	80	167
Long term	**27,118**	**31,277**
Debt securities	9,823	12,077
Treasury bonds (c)	1,440	1,700
Sri Lanka Development bonds (d)	58	31
International sovereign bonds (e)	8,325	10,347
Loans	17,295	19,201
Central Bank	**2,022**	**1,924**
Short term	**536**	**596**
Currency and deposits	3	1
Other accounts payable	533	594
Asian Clearing Union liabilities	533	594
Long term	**1,486**	**1,329**
Special Drawing Rights (SDRs) allocation	532	563
Currency and deposits	400	-
Loans	554	765
Credit and loans with the IMF	554	765
Stand-By Arrangement	232	-
Extended Fund Facility	322	765
Deposit-taking Corporations	**8,790**	**8,711**
Short term	**5,247**	**5,140**
Currency and deposits (f)	2,039	2,212
Commercial banks	2,039	2,212
Loans	3,209	2,929
Commercial banks	3,209	2,929
Long term	**3,543**	**3,571**
Debt securities (e)	2,190	1,666
Commercial banks	1,128	613
Other deposit-taking corporations	1,062	1,053
Loans	1,354	1,904
Commercial banks	1,339	1,886
Other deposit-taking corporations	14	19
Other Sectors (g)	**5,584**	**6,080**
Short term	**1,480**	**1,790**
Trade credit and advances (h)	1,480	1,790
Long term	**4,104**	**4,290**
Debt securities (e)	172	177
Loans	3,931	4,114
Private sector corporations	1,689	1,871
State owned business enterprises and public corporations	2,242	2,243
Direct Investment: Intercompany Lending (i)	**2,825**	**3,664**
Gross External Debt Position	**46,418**	**51,824**
As a Percentage of GDP		
Gross external debt	56.8	59.5
Short term debt	9.0	8.8
Long term debt	47.8	50.6
As a Percentage of Gross External Debt		
Short term debt	15.8	14.8
Long term debt	84.2	85.2
Memorandum Items		
Debt Securities-Sectorwise Breakdown at Face Value	**12,219**	**13,566**
General government	9,944	11,791
Treasury bills	86	180
Treasury bonds	1,650	1,930
Sri Lanka development bonds	58	31
International sovereign bonds	8,150	9,650
Deposit-taking corporations, except the Central Bank	2,100	1,600
Commercial banks	1,100	600
Licensed specialised banks	1,000	1,000
Other sectors	175	175

Source: Central Bank of Sri Lanka

(a) Revised
(b) Provisional
(c) Based on book value
(d) Based on face value
(e) Based on market prices
(f) Includes deposits of non-resident foreign currency holders
(g) Includes private sector and state owned business enterprises
(h) Includes trade credits outstanding of the Ceylon Petroleum Corporation and private sector companies
(i) Includes inter-company borrowings and shareholder advances on BOI registered companies

external debt, the share of government debt in total outstanding external debt stood at 60.7 per cent by end-2017 compared to 58.6 per cent at end-2016.

5.10.2 Foreign Debt Service Payments

Foreign debt service payments, which consist of capital repayments and interest payments on Sri Lanka's external debt, continued to increase in 2017. Capital repayments decreased to US dollars 3,156 million in 2017 from US dollars 3,243 million in 2016, of which general government accounted for US dollars 1,354 million. The repayment of US dollars 1,320 million of long-term foreign loans obtained for financing projects implemented by the government mainly contributed to the increased debt amortization by the government. However, repayments by the Central Bank declined to US dollars 635 million in 2017, from US dollars 1,555 million in 2016. This included the settlement of the international currency swap arrangement with RBI and the settlement of the IMF SBA facility. In contrast, repayments by the private sector and deposit taking corporations increased due to the settlement of an International Bond issued by the BOC amounting to US dollars 500 million. Interest payments increased, albeit moderately, during the year to US dollars 1,405 million, from US dollars 1,219 million in 2016. The decline in interest payments by the private sector and deposit taking corporations was outweighed mainly by the increase in interest payments on the general government debt obligations. Since the surge in debt service payments was lower than the increase in earnings from merchandise exports and services, total external debt service payments as a percentage of the export of merchandise goods and services declined to 23.9 per cent in 2017 from 25.6 per cent in 2016. Further, as government debt represents the major part of the country's debt stock, government debt service payments accounted for 53.0 per cent of total debt service payments in 2017.

Table 5.14
External Debt Service Payments

Item	US$ million					Rs. million				
	2013	2014	2015	2016 (a)	2017 (b)	2013	2014	2015	2016 (a)	2017 (b)
1. Debt Service Payments	**4,044**	**3,635**	**4,772**	**4,461**	**4,560**	**522,155**	**474,527**	**648,541**	**648,315**	**694,127**
1.1 Amortisation	**2,985**	**2,479**	**3,580**	**3,243**	**3,156**	**385,362**	**323,626**	**487,275**	**472,270**	**481,028**
General Government	1,555	1,296	1,976	1,040	1,354	200,705	169,150	265,662	151,236	206,531
Project Loans	836	793	798	876	1,320	107,906	103,540	107,536	127,396	201,430
Debt securities	719	503	1,178	164	34	92,799	65,610	158,126	23,840	5,101
Central Bank	653	719	907	1,555	635	84,285	93,917	125,686	226,118	96,584
IMF	453	719	507	455	235	58,463	93,917	68,775	65,956	35,601
Swap and other liabilities	200	-	400	1,100	400	25,822	-	56,911	160,162	60,983
Private sector and deposit taking corporations	777	464	698	648	1,167	100,372	60,559	95,928	94,916	177,913
Foreign loans	774	309	553	559	548	99,952	40,280	76,199	81,944	83,520
Debt securities	-	-	-	-	500	-	-	-	-	76,169
Intercompany debt of direct investment enterprises	3	155	145	88	119	420	20,279	19,729	12,972	18,225
1.2 Interest Payments	**1,060**	**1,156**	**1,192**	**1,219**	**1,405**	**136,793**	**150,901**	**161,266**	**176,045**	**213,099**
General Government	832	876	870	862	1,064	107,357	114,368	117,496	124,042	161,898
Project Loans	255	260	266	264	334	32,982	33,883	36,024	38,440	50,832
Debt securities	576	616	604	597	731	74,376	80,485	81,472	85,602	111,065
Central Bank	35	20	13	10	16	4,507	2,546	1,693	1,436	2,378
IMF	33	20	10	8	12	4,313	2,546	1,395	1,179	1,897
Swap and other liabilities	2	-	2	2	3	194	-	298	257	482
Private sector and deposit taking corporations	193	260	309	347	325	24,929	33,986	42,077	50,567	48,823
Foreign loans	145	118	148	179	174	18,663	15,470	20,128	26,121	26,466
Debt securities	48	142	159	159	142	6,157	18,517	21,779	23,186	20,948
Intercompany debt of direct investment enterprises	1	-	1	9	9	109	-	170	1,260	1,409
2. Earnings from Export of Goods and Services	**15,079**	**16,735**	**16,943**	**17,448**	**19,120**					
3. Receipts from Export of Goods, Services, Income and Current Transfers	**21,639**	**23,936**	**24,078**	**24,835**	**26,455**					
4. Debt Service Ratio										
4.1 As a percentage of 2 above										
Overall Ratio	26.8	21.7	28.2	25.6	23.9					
Excluding IMF transactions	23.6	17.3	25.1	22.9	22.6					
4.2 As a percentage of 3 above										
Overall ratio	18.7	15.2	19.8	18.0	17.2					
Excluding IMF transactions	16.4	12.1	17.7	16.1	16.3					
5. Government Debt Service Payments										
5.1 Government debt service payments (c)	2,386	2,172	2,846	1,901	2,418					
5.2 As a percentage of 1 above	59.0	59.7	59.6	42.6	53.0					

(a) Revised
(b) Provisional
(c) Excludes transactions with the IMF

Source : Central Bank of Sri Lanka

The bunching of maturities of external sector liabilities, particularly with ISBs maturing in the period from 2019 to 2023 is a concern in the external sector over the short to medium-term. The enactment of the Active Liability Management Act, in 2018, provides the legal framework for prudent public debt management. It constitutes a major step taken to address current issues in public debt management, including the bunching of maturities. The overall increase in external debt of the country will also have a significant impact on the external current account through higher interest payments. The global interest rates demonstrate an increasing trend due to recent interest rate hikes announced by the Federal Reserve Bank of the United States with expectations of further hikes by major central banks. The rise in interest rates is likely to have an impact on Sri Lanka's external sector by way of increasing debt servicing cost.

5.11 Exchange Rate Movements

The external value of the Sri Lankan rupee remained relatively stable, in 2017, under a more market-based exchange rate policy

implemented by the Central Bank during the year, limiting Central Bank intervention in the foreign exchange market only to build-up international reserves. The significant depreciation pressure on the rupee that prevailed particularly during the first two months of 2017 due to continued outflows stemming from import expenditure, debt service payments and unwinding of foreign investments in the government securities market necessitated the Central Bank to supply foreign currency liquidity to the domestic foreign exchange market to defend the external value of the Sri Lankan rupee. However, this situation turned around from March 2017, particularly with higher foreign investments to the CSE and the government securities market and increased conversion of export proceeds, which provided an opportunity for the Central Bank to absorb foreign exchange liquidity from the market. The depreciation pressure on the rupee further eased gradually from May onwards with the issuance of the ISB, the receipt of the foreign currency term financing facility, and disbursement of the third and the fourth tranches of the IMF EFF programme, which helped improve investor confidence. This situation contributed towards the stability of the rupee against the US dollar during the period from end-March to end-December 2017, even with some periods of gradual appreciation of the rupee amidst substantial absorption of foreign exchange liquidity by the Central Bank. With these developments, the rupee, which depreciated by 1.28 per cent in the first quarter of 2017, recorded an overall depreciation of 2.00 per cent against the US dollar during the year, from Rs. 149.80 at end-2016 to Rs. 152.85 at end-2017. In addition, the annual average exchange rate depreciated by 4.50 per cent to Rs. 152.46 against the US dollar in 2017.

Reflecting movements in cross-currency exchange rates against the US dollar in international markets, the rupee depreciated

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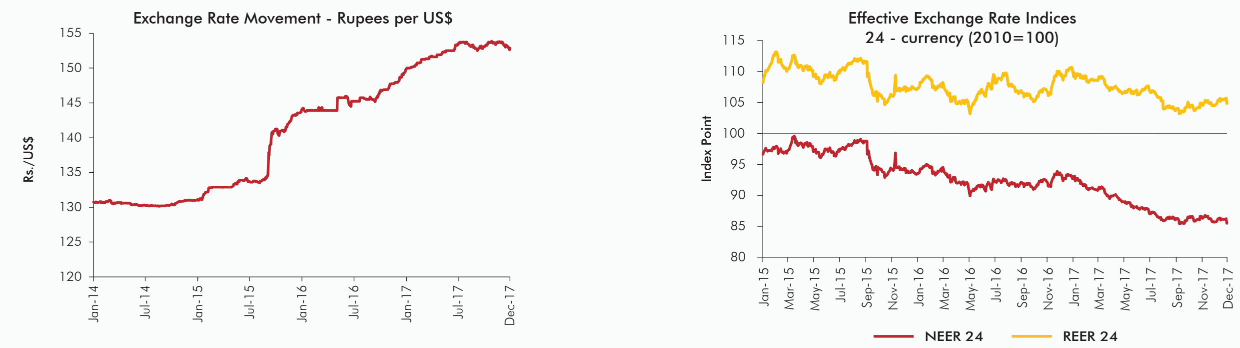
Table 5.15
Exchange Rate Movements

Currency	In Rupees per unit of Foreign Currency						Percentage Change over Previous Year (a)			
	End Year Rate			Annual Average Rate			End Year		Annual Average	
	2015	2016	2017	2015	2016	2017	2016	2017	2016	2017
Euro	157.37	157.87	182.49	150.84	161.16	171.73	-0.32	-13.49	-6.40	-6.16
Indian rupee	2.17	2.21	2.39	2.12	2.17	2.34	-1.72	-7.54	-2.25	-7.48
Japanese yen	1.20	1.29	1.36	1.12	1.34	1.36	-7.05	-5.10	-16.48	-1.12
Pound sterling	213.57	184.04	205.54	207.99	197.15	196.47	16.04	-10.46	5.50	0.35
US dollar	144.06	149.80	152.85	135.94	145.60	152.46	-3.83	-2.00	-6.64	-4.50
SDR	199.63	201.38	217.69	190.16	202.39	211.49	-0.87	-7.49	-6.04	-4.31
Effective Exchange Rate Indices (b) (c)	End Year Index			Annual Average Index			Percentage Change over Previous Year			
							End Year Index		Annual Average Index	
(2010=100)	2015	2016	2017	2015	2016	2017	2016	2017	2016	2017
NEER 24-currencies	93.53	92.64	85.46	96.61	92.46	88.07	-0.95	-7.75	-4.29	-4.75
REER 24-currencies	107.28	110.18	104.83	109.50	106.94	106.10	2.70	-4.85	-2.34	-0.78

(a) Changes computed on the basis of foreign currency equivalent of Sri Lanka rupees. The sign (-) indicates depreciation of Sri Lanka rupee against each currency, respectively.
(b) The Nominal Effective Exchange Rate (NEER) is a weighted average of nominal exchange rates of 24 trading partner and competitor countries. Weights are based on the trade shares reflecting the relative importance of each currency in each of the currency baskets. The Real Effective Exchange Rate (REER) is computed by adjusting the NEER for inflation differentials with respect to each currency in the basket. A minus sign indicates depreciation. CCPI was used for REER computation.
(c) The exchange rate have been defined in terms of indices so that the appreciation/depreciation of the rupee relative to other currencies is directly reflected by a rise/fall in the values of the effective exchange rate indices, respectively.

Source: Central Bank of Sri Lanka

Chart 5.14
Exchange Rate Movements



Source : Central Bank of Sri Lanka

markedly against all other major currencies in 2017, in comparison to the previous year. Accordingly, the exchange rate of the Sri Lankan rupee depreciated against the euro by 13.49 per cent, the Indian rupee by 7.54 per cent, the Japanese yen by 5.10 per cent, and the pound sterling by 10.46 per cent. With the combined effect of the depreciation of the rupee against major currencies, the Sri Lankan rupee also depreciated against the SDR by 7.49 per cent during the year.

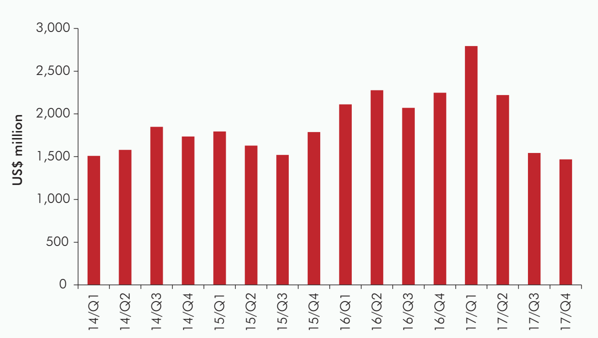
5.11.1 Nominal and Real Effective Exchange Rates

Effective exchange rate indices (2010=100), which measure the movement of the Sri Lankan rupee against a basket of currencies, depreciated during the year. Nominal Effective Exchange Rate (NEER) indices depreciated, reflecting the nominal depreciation of the Sri Lankan rupee against the dollar and other major currencies considered in the basket. The 5-currency NEER index depreciated by 8.68 per cent, while the 24-currency index depreciated by 7.75 per cent in 2017. Meanwhile, Real Effective Exchange Rate (REER) indices, an indicator of Sri Lanka's external competitiveness that takes into account the inflation differential among countries in addition to the variation in nominal exchange rates, also depreciated during the year. Based on 5-currency and 24-currency REER baskets, REER indices depreciated, by 4.83 per cent and 4.85 per cent, respectively, getting closer to the 100-index point mark. Although the behaviour of REER indices indicated an improvement in the external competitiveness of the rupee, REER indices remained above 100 due to relatively high inflation experienced by the country.

5.11.2 Developments in the Domestic Foreign Exchange Market

The spot market, which was not very active in 2016, revived in 2017 in response to the implementation of the more market-based exchanges rate policy by the Central Bank, while the volume of forward transactions declined, albeit marginally. With the increase in spot market transactions, the total volume of transactions in the domestic foreign exchange market increased notably during the year to US dollars 16,451 million, from US dollars 14,780 million in 2016. The volume of spot transactions increased substantially to US dollars 8,426 million (51.2 per cent of total transactions) in 2017 from US dollars 6,072 million in 2016. The total volume of forward transactions decreased to US dollars 8,025 million in 2017

Chart 5.15
Quarterly Inter - Bank Forward Transaction Volumes



Source : Central Bank of Sri Lanka

from US dollars 8,709 million in 2016. Meanwhile, the presence of the Central Bank in the domestic foreign exchange market resulted in an absorption of US dollars 1,664 million, on a net basis, in 2017. This included an absorption of US dollars 2,214 million and a supply of US dollars 550 million. This was a complete turnaround in terms of intervention by the Central Bank, in 2017, compared to the previous year, in which the Central Bank supplied foreign exchange liquidity amounting to US dollars 1,900 million while purchasing US dollars 1,132 million. The higher level of net absorption in 2017 was particularly due to the improvement in foreign exchange inflows in the last three quarters of the year, which enabled the Central Bank to limit its intervention in absorbing excess foreign liquidity to build-up gross official reserves of the country. The absorption of foreign exchange helped the Central Bank to meet international reserve targets set under the IMF EFF.

Movements of one-month forward premia and Net Open Position (NOP) of commercial banks reflected foreign exchange market participants' near-term expectations of a depreciation in the exchange rate in 2017. Accordingly, the forward premia for one-month contracts remained above the average of interest rate differentials during 2017. Meanwhile, indicating near-term depreciation expectations of the market, NOP of commercial banks also remained at a positive level, on average, during the year. However, forward premia for three-months and six-months remained below interest rate differentials during the year, indicating expectations of an improvement in foreign exchange inflows in the short run.

BOX 05

Further Liberalization of Foreign Exchange Transactions under the Foreign Exchange Act, No. 12 of 2017

1. Introduction

Foreign exchange transactions in Sri Lanka, which were subject to substantial controls, were partly liberalised in line with broader economic reforms under the open economic policy regime introduced in 1977. Trade liberalization, which took place with the introduction of open economic policies, could be considered as the platform on which the gradual liberalisation of foreign exchange transactions has taken place over the period. After accepting the IMF Articles VIII in 1994, the current account was substantially liberalized allowing free flow of foreign exchange for current transactions. Further, capital transactions, especially capital inflows, have been substantially liberalized since 1977 while capital outflows have been partially liberalized to facilitate cross border investments. However, for any outward capital transaction exceeding the permitted threshold limit, prior approval of the Central Bank of Sri Lanka (CBSL) was needed to be obtained. Nevertheless, persons holding foreign currency accounts were permitted to use funds in such accounts for any purpose outside the country including for capital transactions.

A new legislative and policy framework for foreign exchange transactions was introduced on 20th November 2017 (appointed date) with the enactment of the Foreign Exchange Act No 12 of 2017 (FEA). The FEA aims integrating the domestic capital market with the global capital market through further liberalization of capital flows and simplification of the processes associated with foreign exchange transactions.

2. Salient features of FEA

2.1 Administration of the Act

The FEA has vested the responsibility of the promotion and regulation of foreign exchange in CBSL as the agent of the Government of Sri Lanka, in accordance with the directions issued by the Minister who is assigned with the 'subject of the Central Bank' (the Minister). The provisions of FEA are implemented through the newly established Department of Foreign Exchange (DFE), headed by the Director of Foreign Exchange. This arrangement is largely similar to the empowerment under the repealed Exchange Control Act, No. 24 of 1953 (ECA).

2.2 Powers of the Minister

Under FEA, following powers are vested with the Minister.

a. Issuing directions to the Monetary Board to carry out provisions of the Act.

b. Prescribing purposes for which CBSL can grant special permission to any person to deal in foreign exchange within Sri Lanka.

c. Authorizing by regulations in consultation with the Monetary Board, the class or classes of capital transactions.

d. Authorizing by regulations in consultation with the Monetary Board, the accounts maintained under FEA.

e. Prescribing by order published in the Gazette, purposes, limits, terms and conditions for export/import of foreign currency/Sri Lanka currency and possession of foreign currency.

f. Prescribing by order published in the Gazette, "a person resident in Sri Lanka".

g. Approving guidelines and directions to be issued by CBSL to:
   - Authorized dealers (ADs)/restricted dealers (RDs) on capital transactions and other transactions
   - other persons
   - ADs/RDs on failure to comply with provisions of the Act

h. Appointment, removal and deciding remuneration of members of the Board of Inquiry for dealing with appeals.

i. Restricting or regulating remittances of foreign exchange in and out, on the advice of the Monetary Board and with the approval of the Cabinet of Ministers for a period not exceeding 6 months, which could be extended for a further aggregate period of up to 12 months, where there is a potential threat to financial stability. Currently the Monetary Law Act has delegated such power to the Monetary Board.

2.3 Persons authorised to deal in foreign exchange

Under the ECA, Licensed Commercial Banks (LCBs) were the sole agents permitted to engage in foreign exchange transactions as ADs whereas FEA has broadened the scope and accessibility to deal in foreign exchange by identifying three broad categories of persons as follows:

a. **ADs:** ADs include both LCBs and Licensed Specialized Banks (LSBs). All LCBs existed as at the appointed date were deemed to be authorized by CBSL to act as ADs, while other LCBs from the date of issuance of a banking license shall be authorized by CBSL to act as

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ADs. All LSBs existed as at the appointed date and new LSBs to be licensed shall also be authorized by CBSL to deal in foreign exchange for the purposes specified in such authorization.

b. **RDs:** In addition to ADs, CBSL may permit any class or classes of persons to deal in foreign exchange within Sri Lanka for the purposes specified in such permission. RDs include money changers or any person other than LCBs and LSBs, which were at the appointed date permitted to deal in foreign exchange.

c. **Persons other than ADs and RDs:** CBSL may also grant special permission to any person not being an AD or RD to deal in foreign exchange within Sri Lanka for purposes prescribed by the Minister by an order published in the Gazette.

The ADs, RDs and other permitted persons are required to deal in permitted foreign exchange transactions exercising their due diligence and establishing bona fide of such transactions. CBSL's involvement is primarily to discipline the foreign exchange market through the issuance of prudential regulations focused on macro level surveillance.

2.4 Permitted transactions

The FEA categorises transactions broadly as current, capital and other transactions, to accommodate possible transactions that may arise in the future, with consideration of the industry dynamics.

a. **Current transactions:** Current transactions are categorized under the following 4 broad categories in line with IMF Articles XXX (d) and can be carried out through both ADs and RDs to the extent of permission granted.

(i) Payments connected with foreign trade, other current business, including services and normal short term banking and credit facilities,

(ii) Payments due as interest on loans and net income from other investments,

(iii) Payment of moderate amounts for amortization of loans or for depreciation of direct investments, and

(iv) Payments for moderate remittances for family living expenses.

Items (iii) and (iv) above were not considered as current transactions under ECA and only ADs were permitted to engage in current transactions.

b. **Capital transactions:** Cross border transactions other than current transactions are defined as capital transactions. The class or classes of capital transactions shall be authorised by regulations made by the Minister, in consultation with the Monetary Board and with the approval of the Cabinet of Ministers. Persons who are entitled to deal in foreign exchange with respect to permitted capital transactions can carry out such transactions through ADs or RDs to the extent permitted.

c. **Other transactions:** Transactions other than capital and current for which CBSL may from time to time issue directions and guidelines with the approval of the Minister.

d. No person residing in Sri Lanka shall deal in foreign exchange within or outside Sri Lanka which involves conversion of Sri Lankan Rupees (LKR) or assets within Sri Lanka to foreign exchange other than through an AD or a RD, unless provided in the Act

e. Any person in or residing in Sri Lanka who holds foreign exchange in a bank account in Sri Lanka or outside Sri Lanka, or owns any foreign assets that has not been derived:

(i) from the conversion of rupees or the disposal or the conversion of any financial or real asset within Sri Lanka, or

(ii) by an AD or a RD from the business of dealing in foreign exchange,

may utilise such foreign exchange for making any payment for current or capital account transaction of such person within or outside Sri Lanka. If such payment is made from Sri Lanka, it should be through an AD or RD

f. A person shall import or export foreign currency or hold any foreign exchange in his/her possession or in a bank account and import and export Sri Lanka currency only for purposes and up to limits prescribed by the Minister by order published in the Gazette.

g. If a resident in Sri Lanka remits foreign exchange to Sri Lanka which:

(i) does not involve rupees converted to foreign exchange or any disposal / conversion of any financial or real assets within Sri Lanka,

(ii) has not been declared to the Commissioner General of Inland Revenue or Exchange Control Department and

(iii) is not a property subject to offences relating to money laundering or bribery,

he/she is required only to pay a remittance fee prescribed by the Minister by regulations, provided such remittances exceed United States Dollars (USD) 1 mn. If monies are invested in a Sri Lanka Development Bond, it is not required to pay the remittance fee and there are no restrictions on subsequent repatriation of such funds.

2.5 Penalties and appeal process

Under ECA, non-compliances were recognised under criminal law, whereas, FEA recognizes non-compliances under civil law. Penalties and appeal process of FEA include the following:

a. Availability of an investigation process including establishing a Board of Inquiry appointed by the Minister to handle appeals of ADs/RDs/other persons who are aggrieved by a decision of CBSL.

b. CBSL at any time can cause an investigation against any AD or RD and impose penalties, restrict/temporarily suspend dealing up to 6 months or revoke the license.

c. CBSL could require the AD or RD to pay an amount not exceeding the value of the foreign exchange or foreign assets.

d. If contravention is by a person other than an AD or a RD, the penalty may be an amount not exceeding Rs. 1 mn.

e. All investigations and inquiries shall be concluded within 6 months unless an extension is obtained with the approval of the Minister.

2.6 Transitional provisions

a. All suits, actions and proceedings instituted under ECA and pending are deemed to be actions and proceedings instituted under the repealed Act and be heard and concluded under the repealed Act

b. All investigations and inquiries under ECA and pending are deemed as those under the repealed Act and are to be concluded within 6 months.

3. Regulations, Orders and Directions issued under FEA

3.1 Regulations issued under FEA

The following three regulations and two orders were issued by the Minister in terms of the provisions of FEA.

a) Foreign Exchange (Capital Transactions in Foreign Exchange Carried on by ADs) Regulations No. 1 of 2017

Foreign investors prefer investing in countries that do not have exit restrictions and clear policy guidelines. The new regulations guided by the broader concept of unrestricted inflows and outflows were mainly focused on further liberalisation of the capital account, by gradually shifting from a controlling regime to a facilitating regime. Attracting new foreign investments/inflows, while creating clarity, transparency, customer convenience, extending investment avenues for economic agents, enhancing limits of certain capital transactions and ensuring the availability of extended services were main objectives of the new policy initiatives. Under this policy regime, general permission was granted to ADs to deal in foreign exchange transactions, which were subject to the approval of the regulator under the previous regime. The introduction of this convenient procedure, by removing bottlenecks would strengthen the competitive position of Sri Lanka and enhance the ease of doing business with the rest of the world. Regulations No. 1 of 2017 has further relaxed the capital account of the Balance of Payments by way of creating opportunities for entrepreneurs to invest abroad, mainly to gain international sophistication in the areas of technology and marketing, while enabling them to understand the international business culture and connect to the global value chain. Accordingly, the main relaxations on capital inflows and outflows are as follows:

(i) Overseas Investments by residents: Increasing the threshold limits of outward capital transactions and broadening the categories of outward investments, while such investments are facilitated by services provided by ADs (Table B 5.1).

Table B 5.1
Comparison of threshold limits of outward investments

<table>
<tr><th rowspan="2">Investor Category</th><th colspan="2">Type of Investment</th><th colspan="2">Limits</th></tr>
<tr><th>ECA</th><th>FEA</th><th>ECA</th><th>FEA</th></tr>
<tr><td>Any company listed in the Colombo Stock Exchange (CSE)</td><td rowspan="4">• Shares
• Sovereign Bonds</td><td rowspan="4">• Shares
• Sovereign Bonds
• Units
• Debt Securities</td><td>USD 500,000 per annum (p.a.)</td><td>USD 2 mn per calendar year</td></tr>
<tr><td>Any company not listed in CSE</td><td>USD 100,000 p.a.</td><td>USD 500,000 per calendar year</td></tr>
<tr><td>Any partnership registered in Sri Lanka</td><td>USD 100,000 for life time</td><td>USD 300,000 for life time</td></tr>
<tr><td>Any individual</td><td>USD 100,000 for life time</td><td>USD 200,000 for life time</td></tr>
<tr><td>Any company or a partnership</td><td colspan="2">Setting up of overseas companies</td><td>USD 100,000 p.a.</td><td>USD 300,000 per calendar year</td></tr>
</table>

(ii) Investments in Sri Lanka by non-residents: The areas available for non-residents to invest in Sri Lanka were broadened by including fixed deposits in LSBs, Licensed Finance Companies, Licensed Micro Finance Companies and Licensed Leasing Companies regulated by CBSL in addition to the previously permitted fixed deposits with ADs (LCBs). Further, investors are now allowed to invest in securities issued by CBSL or any other statutory body, shares in companies not incorporated in Sri Lanka and listed in the CSE. This is to create new opportunities and enhance investment avenues for prospective investors, with a view to attracting capital inflows to Sri Lanka on a permanent basis.

(iii) Migrants' Fund transfer: The decade old limits of migration allowances (both initial allowance and annual allowance) were also enhanced with a view to facilitating Sri Lankan origin migrants. Permission was granted to ADs to transfer enhanced migration allowances through Capital Transactions Rupee Accounts (CTRAs) maintained with ADs upon submitting the relevant documents, without obtaining prior permission of CBSL (Table B 5.2).

Table B 5.2
Comparison of threshold limits of migration allowances

Migration Allowance	Limits under ECA	Limits under FEA
Initial migration allowance	USD 150,000 per person	USD 200,000 per person
Annual migration allowance	USD 20,000 per person	USD 30,000 per person

(iv) Loans to Sri Lankans working abroad: A single scheme of loans for Sri Lankans employed abroad was introduced by amalgamating previously existing three types of loan schemes, to simplify applicable regulations and promote foreign exchange earnings from migrant workers, in recognition of the valuable contribution they make to the national economy.

b) Foreign Exchange (Opening and Maintenance of Accounts for engaging in Capital Transactions) Regulations No. 2 of 2017

Around 17 different types of foreign currency accounts created under ECA were reclassified for simplicity and operational convenience. Regulations 2 and 3 are mainly focused on simplifying the complex structure of foreign currency and LKR accounts opened and maintained under ECA. Regulations 2 deals with opening and maintenance of five types of foreign currency accounts or LKR accounts, to deal in capital transactions. (Table B 5.3).

Table B 5.3
Comparison of Accounts for Capital Transactions

Accounts under ECA	Re-designated account under FEA
• Securities Investment Accounts (SIAs) • Special Foreign Investment Deposit Accounts (SFIDAs)	Inward Investment Account (IIAs)
• Outward Investment Accounts (OIAs)	Remains unchanged
• Non-Resident Rupee Accounts (NRRAs) • Non-Resident Blocked Accounts (NRBAs) • Migrant Blocked Accounts (MBAs).	Capital Transactions Rupee Account (CTRAs)
• Diplomatic Foreign Currency Accounts (DFCAs) • Diplomatic Rupee Accounts (DRAs)	Remains unchanged

c) Foreign Exchange (Opening and Maintenance of Foreign Exchange Accounts) Regulations No. 3 of 2017

These Regulations have categorised foreign currency accounts broadly under two categories by combining 9 accounts maintained under ECA (Table B 5.4).

Table B 5.4
Comparison of foreign currency accounts

Accounts under ECA	Re-designated account under FEA
• Non-Resident Foreign Currency (NRFC) Accounts • Resident Foreign Currency (RFC) Accounts • Resident Non-National's Foreign Currency (RNNFC) Accounts • Non-Resident Non-National Foreign Currency (NRNNFC) Accounts • Foreign Currency Accounts for International Service Providers and their Employees (FCAISPE) in the capacity of employees	Personal Foreign Currency Accounts (PFCAs)
• Foreign Exchange Earners' Accounts (FEEAs) • Foreign Currency Account for an Agent of Foreign Shipping Line/Airline (FCAASA) • Inward Remittance Distribution Accounts (IRDA) • Foreign Currency Accounts for International Services Providers and their Employees (FCAISPE) in the capacity of employers	Business Foreign Currency Accounts (BFCAs)

- Opening of new Post Tsunami Inward Remittance Accounts (PTIRAs) are discontinued as requests for such accounts can be accommodated through normal Sri Lanka Rupees accounts.
- Resident Guest Foreign Currency Accounts (RGFCAs), Resident Guest Rupee Current Accounts (RGRCAs), Senior Foreign Nationals' Fixed Deposit Accounts (SFNFDAs) and Senior Foreign Nationals' Rupee Accounts (SFNRAs) will be continued without re-designating until the Special Deposit Act is enacted by the Government to accommodate foreign nationals' who intend to make Sri Lanka as their second home.
- External Commercial Borrowing Accounts (ECBAs), already opened under ECA will be continued only until the full settlement of loans obtained under such schemes.

3.2 Orders issued under FEA

a) Order determining purposes, limits, terms and conditions on import, export and possession of foreign currency and LKR

In terms of this Order, any person arriving in to or departing from Sri Lanka can carry any amount of foreign currency subject to declaration requirements in Table B 5.5. Accordingly, the declaration thresholds under ECA have been enhanced under FEA.

Table B 5.5

Comparison of foreign currency threshold limits of customs declaration

Instance	Declaration requirement*	
	ECA	FEA
A person brings foreign exchange into Sri Lanka in any form	Exceeding USD 15,000	Exceeding USD 15,000
A person arriving and intends to take back in currency notes form	Exceeding USD 5,000	Exceeding USD 10,000
A person leaves the country with currency notes	Exceeding USD 5,000	Exceeding USD 10,000
A person takes out foreign exchange in any form	Exceeding USD 10,000	Exceeding USD 15,000

*in USD, or equivalent in other foreign currencies

b) Order determining residential status of a person

A new criterion for determining a person's residential status was introduced based on the aggregate number of days spent in Sri Lanka (i.e. 183 days or more), rather than focusing on permanent place of abode as required under ECA. This is in conformity with other international standards and applicable legislations such as the Inland Revenue Act. It is also intended to eliminate ambiguities in the determination of residency under the previous regime.

3.3 Directions Issued to ADs

The DFE has issued 15 Directions to ADs as operating instructions to facilitate implementing the regulations and orders. All these Regulations, Orders and Directions issued under FEA can be accessed by the general public from the website www.dfe.lk

4. Concluding Remarks

Although policies are formulated and legislation is in place, effective implementation is necessary to attain the desired outcome of the FEA. Expected outcome of the relaxation and simplification measures introduced under the new Act is largely dependent on the successful implementation of such measures by ADs/RDs and their ability to deal effectively and efficiently with the stakeholders.

In addition, the new framework may require continuous revisions centered on the feedback received from stakeholders based on the industry dynamics, as this is a new policy initiative.

References

Central Bank of Sri Lanka (n.d), Annual Reports

Exchange Control Act, No.24 of 1953

Foreign Exchange Act, No. 12 of 2017

IMF Articles of Agreements

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