



# Exporters' Association of Sri Lanka

Annual Report  
&  
Accounts

2017 – 2018

## **OFFICE BEARERS 2017/ 2018**

### **CHAIRMAN**

**Mr. Harin De Silva**  
Eastern Merchants Plc

### **1<sup>st</sup> VICE CHAIRMAN**

**Mr. Chrisso De Mel**  
Hayleys Plc

### **2<sup>nd</sup> VICE CHAIRMAN**

**Mr. Imdadh Marikar**  
Expolanka (Pvt) Ltd

### **SECRETARIAT**

#### **THE CEYLON CHAMBER OF COMMERCE**

50, Nawam Mawatha, Colombo 2

TEL : +94 11 5588871

FAX : +94 11 2449352

EMAIL : [easl@chamber.lk](mailto: easl@chamber.lk)

WEBSITE : [www.exporterssrilanka.net](http://www.exporterssrilanka.net)

# MANAGING COMMITTEE 2017/2018

## MEMBER COMPANIES

Company Name	Main Representative	Alternate Representative
A S Agri Exports (Pvt) Ltd	Dr. A S Sabaratnam	
C W Mackie PLC	Mr. Nalin Jayasinghe	
Ceylon Biscuits Ltd	Mr. Jude Rubera	Mr. Priyantha Bandara
Chemanex PLC	Mr. Jayantha De Mel	
Eastern Merchants PLC	Mr. Harin De Silva	
Expolanka (Pvt) Ltd	Mr. Imdadh Marikar	Mr. Mohamed Farzan
Greenfield Bio Plantations Ltd	Mr. Fazal Mushin	Ms. Koushalya Radhakrishnan
Hatton National Bank PLC	Mr. Janath Illangantileke	Mr. Shyam De Silva
Hayleys PLC	Mr. Chrisso De Mel	Mr. Nalaka Ratnayake
Hellmann Worldwide Logistics (Pvt) Ltd	Mr. Sunanda Perera	
Imperial Teas (Pvt) Ltd	Mr. Wasantha Alutwela	Mr. Kapila Jayasundara
Jafferjee Brothers	Mr. Saifuddin Jafferjee	Mr. Suminda Kumar
K I K Lanka (Pvt) Ltd	Mr. Lakshan Algama Perera	Mrs. Nadie Kahatapitiya Algama
Link Natural Products (Pvt) Ltd	Mr. Thakshila Gamage	Mr. Chanaka Gunathilake
Meezan & Co. (Pvt) Ltd	Mr. Azlie Irshad	Mr. S Abdul Cader
Microcells Ltd	Mr. A L Wickremeratne	
Nidro Supply (Pvt) Ltd	Mrs. Dawn Austin	
Saboor Chatoor (Pvt) Ltd	Mr. Gulam Chatoor	Mr. Ejaz Chatoor
Shums & Company Pvt Ltd	Mr. M H Talal Shums	Mr. M Saheed Jiffry
Sri Lanka Export Credit Insurance Corporation	Mr. D H J Ranasinghe	Mr. S M T Silva
Tea Tang (Pvt) Ltd	Mr. Rohan P Daluwatte	Mr. Suresh Rajendram

## MANAGING COMMITTEE 2017/2018

### MEMBER PRODUCT ASSOCIATIONS

<i>PRODUCT ASSOCIATION</i>	<i>REPRESENTED BY</i>
1. Colombo Tea Traders' Association	Mr. H D Hemaratne
2. Seafood Exporters Association of Sri Lanka	Mr. Channa Weeratunga Mr. Viraj Balapitiya
3. Spices & Allied Products Producers Association	Mr. Vernon Abeyratne
4. Sri Lanka Association of Manufacturers & Exporters of Rubber Products	Mr. Justin Seneviratne Mr. Sisira Ranatunga
5. Sri Lanka Gem & Jewellery Association	Mr. Ajward Deen Mr. Rizwan Nayeem
6. Sri Lanka Diamond Manufacturers Association	Mr. Sanjaya Baid Mr. R D Samaranayake
7. Sri Lanka Fruit & Vegetable Producers, Processors & Exporters Association	Mr. S. Gnanaskandan
8. Sri Lanka Apparel Exporters Association	Mr. Aziz Rummy Mr. Athula Jayasundera
9. Colombo Rubber Traders Association	No representative
10. Sri Lanka Association of Software Services Companies (SLASSCOM)	Mr. Rifdy Fahmy Mr. Druvinda Jayamanne
11. Tea Exporters Association	Mr. Dai Pathmanathan Mr. Ranjith Abeykoon

## **MANAGING COMMITTEE 2017/2018**

### **PAST CHAIRPERSONS**

Mr. Fazal Mushin	Greenfield Bio Plantations Ltd (Immediate Past Chairperson)
Mrs. Dawn Austin	Nidro Supply (Pvt) Ltd
Mrs. Nirmali Samaratunga	Mackwoods Ltd
Mr. Deepal Chandrasekera	Imperial Teas (Pvt) Ltd
Mr. A. S. M. Muzzamil	Ceylon Foods (Pvt) Ltd

## THE EXPORTERS' ASSOCIATION OF SRI LANKA

### MANAGING COMMITTEE 2017-2018



#### **Standing from Left to right**

Mr. S Abdul Cader (Meezan & Co (Pvt) Ltd), Mr. Justin Seneviratne (Sri Lanka Association of Manufacturers & Exporters of Rubber Products), Mr. Lakshan Algama (K.I.K. Lanka (Pvt) Ltd), Mr. Aziz Rummy (Sri Lanka Apparel Exporters' Association), Dr. A S Sabaratnam (A S Agri Exports (Pvt) Ltd), Mr. S M T Silva (Sri Lanka Export Credit Insurance Corporation), Ms. Chamari Wickramathilake (Link Natural Products (Pvt) Ltd), Mr. D H J Ranasinghe (Sri Lanka Export Credit Insurance Corporation)

#### **Seated from Left to Right**

Ms. Manori Dissanayaka (Ceylon Chamber of Commerce / EASL Secretariat), Mr. Talal Shums (Shums & Company Pvt Ltd), Mr. Rohan P. Daluwatte (Tea Tang Pvt Ltd/Past Chairman), Mr. Deepal Chandrasekera (Past Chairman), Mr. A S M Muzammil (Past Chairman), Mr. Chrisso De Mel (1<sup>st</sup> Vice Chairman), Mr. Harin De Silva (Chairman), Mr. Imdadh Marikar (Expo Lanka Pvt Ltd), Mr. Fazal Mushin (Immediate Past Chairman), Mrs. Nirmali Samarantunga (Past Chairperson), Ms. Ushani Dassanayake (Ceylon Chamber of Commerce / EASL Secretariat)

**Not Present:** Mrs. Dawn Austin (Past Chairperson/Nidro Supply (Pvt) Ltd), Mr. Gulam Chatoor (Past Chairman/ Saboor Chatoor (Pvt) Ltd), Mr. Nalin Jayasinghe (C W Mackie PLC), Mr. Jude Rubera (Ceylon Biscuits Ltd), Mr. Jayantha De Mel (Chemane PLC), Mr. Janath Illangantileke (Hatton National Bank PLC), Mr. Sunanda Perera (Hellmann Worldwide Logistics (Pvt) Ltd), Mr. Wasantha Alutwela (Imperial Teas (Pvt) Ltd), Mr. Thakshila Gamage (K I K Lanka (Pvt) Ltd), Mr. Azlie Irshad (Meezan & Co. (Pvt) Ltd), Mr. A L Wickremaratne (Microcells Ltd)

## **Highlights of 2017/2018 AGM**



**Head Table:** from left to right Mr. Fazal Mushin (Immediate Past Chairman), Mr. Imdadh Marikar (2<sup>nd</sup> Vice Chairman), Mr. Chrisso de Mel (1<sup>st</sup> Vice Chairman), Mr. Harin de Silva (Chairman), Ms. Manori Dissanayaka (Assistant Secretary General, CCC/EASL Secretariat)

## **Highlights of Post Business Session**



Chief Guest: Central Bank Governor  
Dr. Indrajit Coomaraswamy



Special Invitee: International Trade State  
Minister Sujeewa Senasinghe



### ***Participants***



## **LIST OF MEMBER COMPANIES AS AT 31<sup>ST</sup> MARCH 2018**

### ***A***

A BAUR & COMPANY (PRIVATE) LIMITED  
A F JONES (EXPORTERS) CEYLON LTD  
A S AGRI EXPORTS (PVT) LTD  
ADAMEXPO  
ADAMJEE LUKMANJEE & SONS LTD  
AGSTAR EXPORTS (PVT) LTD  
AITKEN SPENCE EXPORTS LTD  
AKBAR BROTHERS (PVT) LTD  
ALLIANCE FINANCE CO PLC  
ANSELL LANKA (PVT) LTD

### ***B***

BANK OF CEYLON  
BEIRA BRUSH PVT LTD  
BOGALA GRAPHITE LANKA PLC

### ***C***

CEYLON BISCUITS LTD  
CEYLON TEA MARKETING (PVT) LTD  
CHAS P. HAYLEY & CO. (PVT) LTD  
CHEMANEX PLC  
CIC HOLDINGS PLC  
COCOTANA COCONUT PRODUCTS  
CONSOLIDATED BUSINESS SYSTEMS (PVT) LTD

### ***D***

DANKOTUWA PORCELAIN LTD  
DELMEGE FORSYTH & CO. LTD  
DIPPED PRODUCTS PLC



## *E*

E B CREASY & CO. PLC  
EASTERN MERCHANTS PLC  
EDINBOROUGH PRODUCTS (PVT) LTD  
ESWARAN BROTHERS EXPORTS (PVT) LTD  
EURO-SCAN EXPORTS (PVT) LTD  
EXPACK CORRUGATED CARTON (PVT) LTD  
EXPOLANKA (PVT) LIMITED  
EXPOLANKA FREIGHT (PVT) LTD

## *F*

FINLAYS COLOMBO PLC

## *G*

GEORGE STEUART & CO. LTD  
GLOBAL RUBBER INDUSTRIES PVT LTD  
GORDON FRAZER & CO LTD  
GREENFIELD BIO PLANTATIONS (PVT) LTD

## *H*

HAMEED BROTHERS COLOMBO (PVT) LTD  
HARRISONS (COLOMBO) LTD  
HATTON NATIONAL BANK PLC  
HAYLEYS PLC  
HELA CLOTHING (PVT) LTD  
HELLMANN WORLDWIDE LOGISTICS (PVT) LTD  
HEMACHANDRAS (KANDY) LTD  
HIRDARAMANI INTERNATIONAL EXPORTS  
(PRIVATE) LIMITE

## *I*

IMPERIAL TEAS (PVT) LTD  
INDUSTRIAL CLOTHINGS LTD  
ISHANA SPICE EXPORTS

## *J*

JAFFERJEE BROTHERS  
JIFFY PRODUCTS S.L. (PVT) LTD

## *K*

K. I. K . LANKA (PVT) LTD

## *L*

LANKA BRUSH EXPORTS (PVT) LTD.  
LANKA WALLTILES PLC  
LANKEM CEYLON PLC  
LINK NATURAL PRODUCTS (PRIVATE) LTD

## *M*

MABROC TEAS (PVT) LTD  
MAC INTERNATIONAL FREIGHT  
(PRIVATE) LIMITED  
MACKWOODS LTD  
MASCONS (PRIVATE) LTD  
MEEZAN & CO (PVT) LTD  
MIAMI EXPORTS (PVT) LTD  
MICROCELLS (PRIVATE) LTD  
MONA PLASTICS (PVT) LTD  
MORISON SON PLC

## *N*

NIDRO SUPPLY (PVT) LTD  
NATIONS TRUST BANK LTD

## *P*

PATTAKANNUS (PVT) LTD  
PREMIER NATURAL TEAS (PVT) LTD

## *R*

RANFER TEAS (PVT) LTD  
RENUKA HOLDINGS PLC  
RICHARD PEIRIS NATURAL FOAMS LTD  
RILEYS PVT LTD

## *S*

SABOOR CHATOOR (PVT). LTD  
SAMPATH BANK PLC  
SHUMS & CO. LTD  
SMITHKLINE BEECHAM (PVT) LTD  
SRI LANKA EXPORT CREDIT INSURANCE CORPORATION  
STASSEN EXPORTS LTD

## *T*

TEA TANG (PVT) LTD  
THE SWADESHI INDUSTRIAL WORKS PLC  
TRELLEBORG LANKA (PVT) LTD  
THE LION BREWERY (CEYLON) PLC

## *U*

UNION COMMODITIES (PVT) LTD

## *V*

VAN REES CEYLON LTD

## LIST OF MEMBER PRODUCT ASSOCIATIONS AS AT 31<sup>ST</sup> MARCH 2018

1. Sri Lanka Fruit & Vegetable Producers, Processors & Exporters Association
2. Sri Lanka Apparel Exporters Association
3. Colombo Rubber Traders' Association
4. Spices & Allied Products Producers Association
5. Colombo Tea Traders' Association
6. Sri Lanka Association of Manufacturers & Exporters of Rubber Products
7. Sri Lanka Gem & Jewellery Association
8. Seafood Exporters Association of Sri Lanka
9. Sri Lanka Diamond Manufacturers Association
10. Sri Lanka Association of Software and Service Companies
11. Tea Exporters Association of Sri Lanka

## PAST CHAIRPERSONS OF THE EXPORTERS' ASSOCIATION OF SRI LANKA

### *Year*

From 1993 to 1997 August - Mr Lyn Fernando  
Chairman of the Export Section of the Ceylon Chamber of Commerce  
- Mr. Gulam Chatoor  
Chairman of the Federation of Exporters Association of Sri Lanka

### **August, 1997**

The Export Section of the Ceylon Chamber of Commerce & the Federation of Exporters Association of Sri Lanka merged to form EASL and the inaugural meeting of the Exporters' Association of Sri Lanka held on August 22nd 1997, This meeting was chaired by Mr Gulam Chatoor as Chairman of Federation of Exporters' Association of Sri Lanka. Mr Lyn Fernando was elected as the Chairman of EASL.

### **Chairpersons from 1997 onwards;**

1997-2000	-	Mr. Lyn Fernando
2000-2003	-	Mr. A S M Muzzammil
2003-2005	-	Mr. Gratian Gunawardhana
2005-2007	-	Mr. Mohan Mendis
2007-2008	-	Mr. Deepal Chandrasekara
2008-2011	-	Mrs. Nirmali Samaratunga
2011-2013	-	Mrs. Dawn Austin
2013-2015	-	Mr. Rohan P. Daluwatte
2015-2017 (February)	-	Mr. Fazal Mushin

## THE EXPORTERS' ASSOCIATION OF SRI LANKA

*The formation of the Exporters Association of Sri Lanka brought a wide spectrum of exporters, under one umbrella, and a strong platform was built to discuss and make representations on issues affecting the Export Trade, with one voice. The Association now represents around 1000 Exporters through direct and indirect membership, and contributes to over 80% of the total exports of the country.*

### **History:**

*In 1973, Chamber Members who engaged in individual export trade initiated the formation of the "Export Section of the Ceylon Chamber of Commerce".*

*In 1987, the Export Development Board initiated the formation of the Federation of Exporters' Associations of Sri Lanka (FEA), which was an umbrella organization of major export product specific Associations.*

*It was observed that there was a duplication of activities of these individual Organizations and that there would be more usefulness served if the two were merged to promote and protect the common interests of Members, whilst making a significant contribution to the growth of the Export Industry of Sri Lankan exporter.*

*In August 1997, Export Section of the Ceylon Chamber of Commerce (CCC) and the Federation of Exporters' Association (FEA) passed resolutions at specially convened General Meetings by the two Institutions that the Institutions merge into one Association to be called the EXPORTERS ASSOCIATION OF SRI LANKA.*

*The first Chairperson elected after the merger, was Mr. Lyn Fernando, with Mr. Gulam Chatoor proposing his name from the chair. Mr. Lyn Fernando and Mr. Gulam Chatoor had both served as Chairpersons of the Export Section of the Ceylon Chamber of Commerce and as the Chairpersons of the FEA.*

*All members of both the Institutions took the membership of the EASL.*

### **Membership**

*The EASL now proudly represents practically the entire Export Sector of Sri Lanka through the Membership of Companies and Exporter Associations. Eligibility to join the EASL being made up of the following:*

- 1. Any member of the Ceylon Chamber of Commerce engaged in or interested in export*
- 2. Any properly constituted and functioning Association representing exporters of products and services*
- 3. Any individual member of such an Association referred to in (2) above*
- 4. Any Company or Individual engaged in exports of goods and services who are registered with Sri Lanka Export Development Board (SLEDB) or any respective Association duly constituted and functional.*

*The EASL's single platform representation structure is acknowledged by all authorities in both the public and private sectors to be a responsible and credible voice of Exporters in Sri Lanka.*

## **REVIEW OF ACTIVITIES 2017/2018**

### **ANNUAL GENERAL MEETING**

The Exporters' Association of Sri Lanka which is an approved Association of the Ceylon Chamber of Commerce held its 20<sup>th</sup> AGM on 28<sup>th</sup> July, 2017 at 5.30 p.m. at the Ramada Hotel, Colombo, followed by Post Business Session and Cocktails at the Liberty Ball Room, at the same hotel. Central Bank Governor Dr. Indrajit Coomaraswamy attended the AGM as the Chief Guest and International Trade State Minister Sujeewa Senasinghe was the Special Invitee.

Mr. Harin De Silva of Eastern Merchants Plc. was elected as the Chairman for EASL whilst Mr. Chrisso De Mel and Mr. Imdadh Marikar were elected as 1<sup>st</sup> Vice Chairman and the 2<sup>nd</sup> Vice Chairman respectively.

The EASL's mission is to promote and protect the interests of the Exporter Community at large and this has brought together a wide spectrum of Exporters under a strong single platform aimed at exchanging views and making representation on Macro issues relevant to the country's Exports.

The EASL has constantly engaged with Government agencies, representing and lobbying Exporter concerns for consideration, with a view to facilitating a dialogue with regard to national policy direction, whilst taking into account the shared goal of achieving strong national economic development through the combined endeavours of the Export Sector and the Government.

Delivering the keynote address Dr. Coomaraswamy stated that the growth in the export sector is crucial for the future development and therefore the country's exporters should achieve a significant improvement in this sector during the coming years.

He stated that former President J.R. Jayewardene took measures to strengthen the export sector, thus Lankan exporters were able to achieve a 36.4 percent growth in 1977- and 72.2 percent growth in 1979.

He said Sri Lanka increased its exports 1.95 times in 2015, while Vietnam and Bangladesh increased exports by 11.2 times and 5.1 times respectively. South Korea and Thailand increased exports by 3.1 times.

Dr. Coomaraswamy also stated that it is necessary for Sri Lankan exporters to focus attention towards value added products and more technologically advanced products, as such exports can create more jobs for the Sri Lankan youth.

He said 27 percent of the country's work force have been leaving the country annually for employment in Korea, Middle East and Italy and if Sri Lanka can improve its export sector, youth can remain here to work for the country.

He stated since Sri Lanka has a very close relationship with countries including Japan, China and Korea, these countries could help develop its export sector to the maximum.

“As Sri Lanka's per capita income continues to rise, we can also increase our productivity using our services like tourism, transport and IT,”

International Trade State Minister Sujeewa Senasinghe stated that the policies of the Government have been admired by foreign countries and this situation has resulted in these countries investing in Sri Lanka and also commencing industrial zones and factories in many parts of the country.

He stated many countries have already agreed to start factories and industrial zones at Hambantota, Moneragala, Galle, Maratra, Kalutara, Kandy, Kurunegala and also in the North and East

The State Minister also highlighted the setting up of a 20, 000 acre industrial park in Sri Lanka to start a Honda car factory and a wire factory.

“We also worked with Harvard University and they granted a five million US dollar fund and the ITC gave a fund of eight million Euros to improve our trade and economic policies,” he stated.

The minister stated that he represented the exporters and investors forum and signed agreements with China, India, Pakistan, Malaysia, Thailand and Singapore to start business ventures.

“We also have planned to set up two cement factories, one oil refinery and one sugar refinery”

Exporters’ Association of Sri Lanka, Chairman Harin de Silva highlighted the invaluable service rendered by Sri Lankan exporters and said the sector was neglected by authorities in the past.

He stated due to this, the export sector declined year by year and it needed a strong political vision to drive it to reach its full potential.

“ With the BREXIT unraveling itself in the European Union (EU), Sri Lanka is faced with a unique challenge that will have a negative impact on realizing the GSP + benefits for sectors like the apparel as the UK accounts for 40 percent of Sri Lanka’s apparel exports into the EU,”.

Chairman de Silva further said the Government must now help to strengthen this sector to reap the benefits of GSP+.

He stated that the Export Development Board and the Foreign Ministry with the help of diplomatic missions overseas must help prospective exporters to find new markets and opportunities for Sri Lanka to re-enter the European Union (EU) based markets.



## **MANAGEMENT COMMITTEE MEETINGS & SUMMARY OF ITS ACTIVITIES**

During the period under review (2017/2018) the Committee met on twelve (12) occasions.

### **EASL REPRESENTATION ON OTHER BODIES/PARTICIPATION AT OTHER FORUMS**

- Committee of the Ceylon Chamber of Commerce
  - Represented by Chairman, Mr. Harin de Silva (Main representative) & Mr. Chrisso de Mel (Alternate)
- Steering Committee on Trade Liberalization of the Ceylon Chamber of Commerce
  - Mr. Harin de Silva, Chairman
- Employers Federation of Ceylon
  - Represented by Mrs. Dawn Austin (Main representative)
- Exporters Forum, Sri Lanka Export Development Board
  - Representative –Mr. Talal Shums
- Policy Advisory Committee (PAC) - Sri Lanka Accreditation Board
  - Main Representative - Mrs. Dawn Austin
- Developing National Export Strategy (NES) Core Team and Working Group, International Trade Centre and Sri Lanka Export Development Board – Mr. Fazal Mushin, Mr. Harin de Silva, Mr. Talal Shums
- Advisory Commission Constituted Under the Intellectual Property Act No. 36 of 2003, Ministry of Industry & Commerce – Mr. Lakshan Algama Perera
- EU - Sri Lanka Trade related assistance project - Geographical Indication (GI) Ceylon Cinnamon, Ministry of Industry and Commerce – Mr. Lakshan Algama
- Steering Committee On Expo 2020 Dubai, Sri Lanka Export Development Board – Mr. Lakshan Algama, Mr. Talal Shums
- Monitoring Committee on Benefits of GSP+ and Labour Matters by Ministry of Labour, Trade Union Relations and Sabaragamu Development – Mr. Rohan P. Daluwatte
- Mr. Fazal Mushin has been appointed by Hon. Sujeewa Senanasinghe to an Independent Committee to look into Allegations made by Minister Wijeyadasa Rajapaksa on BOI Companies involvement in importing pepper, areca-nuts etc. and illegally re-exporting and leaking into domestic market.

The Association also maintained a close dialogue with the following Institutions, on export related matters:

- Ministry of Development Strategies and International Trade
- Ministry of Industry and Commerce
- Ministry of Finance
- Ministry of Foreign Affairs
- Sri Lanka Export Development Board
- Department of Inland Revenue (VAT Dept)

- Sri Lanka Customs
- Board of Investment
- The Central Bank of Sri Lanka
- Sri Lanka Ports Authority
- Department of Commerce
- Department of Exchange Control
- Joint Apparel Associations Forum
- Sri Lanka Standards Institute

## **MAIN AREAS ADDRESSED DURING THE YEAR UNDER REVIEW**

As the apex body representing over 1,000 Exporters through direct & indirect membership, who contribute over 80% to the total exports of the country, the EASL activities during the year under review, were primarily aimed at facilitating an environment for the Exporters with a focus on global competitiveness and achieving strong growth of the Sector.

In the year under review the EASL has forged ahead to capitalize on the Government's declaration that all imperatives required to encourage the growth of Export will be addressed and resolved. Consistent and frequent representation has been made by the EASL to every related agency connected with Exports, drawing attention to aspects that constrain Export businesses from being able to achieve the targets which each sector has set for itself.

The Association has identified a few key areas of importance to exports to be the focus of the Committee during the year, Improve the quality and standards of export products; Build capacity within Institutions responsible ensuring the ability to achieve international standards in a cost effective manner; Create encouragement to increase Production and Productivity; Setting up of an EXIM bank to support Exporters looking at new markets, NTBS, Sanitary and Phytosanitary Measures and Technical Barriers to Trade relevant to FTAs with India, China and Pakistan were taken up at the various sub committees appointed by the Ministry of Development Strategies and International Trade (MoDSIT).

EASL has lobbied to revoke the decision of terminating of S-VAT along with other trade Associations and Chambers.

The Office-bearers worked tirelessly on lobbying on Tax, Fiscal, and other issues related to the new Foreign Exchange Act, the New Inland Revenue Act, Budget Proposals for 2018 and the Sri Lanka Singapore Treaty for prevention of Double Taxation which has a bearing on the Free Trade Agreement (FTA) which was signed by the Government of Sri Lanka and Singapore recently which impacts on, and benefits International Trade particularly in regard to exports

In addition, EASL was invited by SLEDB to participate in a meeting with Mr. R Paskaralingam, Advisor to the Ministry of National Policy Planning & Economic Affairs to discuss fiscal issues confronted by exporters.

EASL has protested against BOI granting approval to a Foreign Company being permitted to export agriculture produce without investment into the Industry through backward integration to create the supply base. A letter was written by EASL to SLEDB highlighting consequences faces by exporters of Fruits and Vegetables due to above issue.

Media has given publicity to the fact that a foreign Company YAS Lanka (Pvt) Ltd which has absolutely no evidence of any production of fresh fruits and vegetables declared involvement in agricultural production in Sri Lanka, but has been granted BOI approval to commence a pack house in Sri Lanka, to export amongst other commodities, fresh fruits & vegetables.

A foreign Company which does not have backward integration into the Sri Lankan production base has been permitted to establish a facility to export produce of Sri Lanka without any investment in developing the production base and will therefore be accessing product that it has not labored to produce.

EASL also submitted submission for the 2017 National Budget, which proposed measures to support and grow the Sector. Some of the key issues, which needed to be addressed in the Budget had been identified by the EASL's membership (which accounts for over 80% of Exporters), and can be largely identified under the headings of Global Competitiveness & Ease of Doing Business.

We have also been very vocal in the media and have released articles on current topics on various matters pertaining to the exporters.

EASL together with Economic Intelligence Unit (EIU) of the Ceylon Chamber of Commerce (CCC) has over the past several months to prepare the 3<sup>rd</sup> phase of EASL Strategy Document, "Recommendations for the National Export Strategy (NEDEVs 3)". This document would propose/recommend to the Policy makers, aspects which the EASL has in the main, identified as cross cutting issues that need to be addressed to enhance the competitiveness and productivity of the export sector in Sri Lanka. Certain matters raised by its sector specific association members have also been taken into consideration in developing this working paper. The document is being finalized end of this month together with the comments of the Managing Committee.

#### **KEY EXPORT RELATED MATTERS ADDRESSED AND RESOLVED THROUGH EASL INTERVENTIONS AT MEETINGS WITH GOVERNMENT OFFICIALS AND OTHER EXPORT RELATED ORGANIZATIONS:**

**i) EASL Submissions for 2017 National Budget**

Submissions of the different Sectors were consolidated and presented by EASL to the Ministry of Finance. Key issues were largely identified under the headings of Global Competitiveness & Ease of Doing Business respectively. This submission was well received and the aspects highlighted as urgent were successfully addressed in the Budget of November 2017.

**ii) Department of Inland Revenue (IRD)**

Representations were made to IRD stating that there should not be a hiatus in the transition from SVAT to RAMIS and that the current SVAT system must remain operational until RAMIS is in place as projected.

**iii) Sri Lanka Customs**

- Meetings with Director General Customs
- Export Statistics to be available monthly for the benefit of the exporters to understand the competitiveness in the market
- Operational Issues relating to Sri Lanka Customs Export Facilitation Centre

**iv) Export Development Board**

- Ongoing interaction with the EDB and members of the Managing Committee being included on the respective EDB Advisory Committees.
- Submissions for Exporters' Forum
- The Chairman of the EASL was appointed to serve on the core team and working Group to formulate National Export Strategy (NES)
- co-chair the Steering Committee and the head the subcommittee on events & Destination Management of the World Export Development Forum (WEDF 2016)
- **PROPOSALS FOR GLOBAL MARKET CAMPAIGN TO BOOST SRI LANKA'S EXPORTS IN 2017**

EASL was represented at the meeting held on 26<sup>th</sup> April 2017. The concept note prepared by Dr. Ravi Dissanayaka, University of Kelaniya (Head of Think-Tank group created at the SLEDB to develop a Branding Strategy for Sri Lanka.) was shared for comments. This strategy paper was developed based on the inputs found in "Think-Tank.

- **SRI LANKA NATIONAL EXPORT STRATEGY (NES)**

The National Export Strategy (NES) has been developed by private and public stakeholders through extensive consultations, which commenced from the First National Symposium held in April 2017 at Temple Trees, under the patronage of Prime Minister Ranil Wickremesinghe. During these consultations, a strategic vision for Sri Lanka's export growth was developed: 'Sri Lanka – An Export Hub driven by Innovation and Investment'.

Six priority sectors and four trade support functions (TSF) were identified by the private and public stakeholders at the consultations. These focus on diversification through support to the priority sectors which are ICT, Wellness Tourism, Spice Concentrates, Boat Building, Processed Food & Beverages, and Electronic, Electrical and Machinery.

All export sectors including the mature sectors will benefit from the strengthening of trade support functions. These TSFs include National Quality Infrastructure, Innovation and R&D, Logistics and

Trade Promotion. The NES for Sri Lanka is being designed by the Ministry of Development Strategies & International Trade and the Sri Lanka Export Development Board (EDB) in consultation with private and public stakeholders.

Technical Assistance to develop the NES is provided by the International Trade Centre (ITC) through funding by the European Union (EU), this technical assistance will aid Sri Lanka's economic vision of strengthening the export competitiveness of the private sector to accomplish inclusive and sustainable growth.

The consultative process leads public sector institutions and private sector enterprises to design a common and agreed plan for growing and diversifying Sri Lanka's export products and reaching new target destinations. Moreover, the focus on some of these sectors will help to invigorate rural economies and create many new employment opportunities. This is part of the Sri Lankan Government's drive to achieve a target of US \$ 28 billion in exports revenue by 2020.

These priority sectors, chosen by the stakeholders, were selected on the basis that focus on these sectors may have the optimal desired impact on the Sri Lankan export economy. The Sri Lankan markets will benefit significantly from foreign investment and these sectors were identified as having the greatest potential in the next five years to attract foreign investment. This has the potential to lead to setting up of international partnerships to benefit local markets and make the most of the current Free Trade Agreements already in place. In relation to each sector, one of the main objectives of the consultations was to seek answers to three questions; the Current status; Future goals; and, Steps or actions to reach the destination. Answers to these questions are expected to help strengthen these sectors and contribute to innovative export led growth.

The second round of Consultative Meetings were held from 12-20 July, to define roadmaps for expanding exports and analyses performances of value chains for the NES focus sectors, market orientations, challenges and opportunities. The Trade Support Functions groups identified the main challenges in the provision of quality and affordable trade support services to Sri Lanka Exporters. Subsequently, regional and sector specific public and private stakeholder consultations were conducted, to confirm trade diagnostics, value chain performances, market orientation and strategic issues, with the ultimate objective to design strategies to improve the industry performance.

Two rounds of sector consultations for each individual sector were conducted at the EDB, from 8 August to 8 September. Regional consultations were held in the Central, Northern and Southern Provinces from 18 to 22 September, to engage Regional Stakeholders and to ensure that regional concerns, requirements and specificities are fully integrated in strategic decision making.

The overview of the strategy design process and the reviewing and validation of the initial results were done at the 3rd consultation, which took place from 10 to 12 October. Based on the NES vision and strategic objectives, a list of high priority export development interventions was identified for integration in the November 2018 National Budget.

Final NES document has been submitted to the parliament for cabinet approval. In the meantime, Advisory Committees were set up by the Hon. Minister, Malik Samarawickrema, Minister of Development Strategies and International Trade under the provision of the SLEDB's Act No. 40 of 1979. These export "Advisory Committees" were rapidly reactivated for effective implementation and monitoring of the NES. These committees were set up for 3 year period. Council is a member of the Advisory Committee on Logistics.

The successful implementation of Sri Lanka's National Export Strategy depends on the capacity and willingness of all public and private sector stakeholders to contribute, collaborate, own and drive towards a common national objective. Priorities need to be implemented at the earliest possible opportunity and the frequency of regular and structured public-private dialogues will be critical to maintain the momentum needed.

The Cabinet approval was granted for NES and the launch has been scheduled for 19<sup>th</sup> July 2018.

The time frame for the implementation of the NES is 2018-2022 and it aims at increasing Sri Lanka's export revenue to US \$ 28 billion by 2022.

#### **v) Sri Lanka Standards Institute**

- **Issues faced by Exporters when exporting fast moving consumer goods to India**

Request for MRA to be established between SLSI and the Exporters and other statutory bodies in order to have reciprocity between Authorising Agencies.

- **Import Inspection Scheme**

EASL suggested that Import and Export Control Department and Sri Lanka Standards Institution shall take into consideration to include products such as Chili powder, Curry Powder under the Import Inspection Scheme of SLSI.

#### **vi) Department of Commerce**

- Addressing Non-Tariff Barriers (NTBs) faced by Sri Lankan exporters when exporting to India in the form of standards, testing and inspection requirements.

#### **vii) Board of Investment of Sri Lanka**

- Request to revisit the approval procedures adopted by the BOI with respect to investments into export of primary products such as spices without any value addition which is detrimental to local exporters.
- Request to extend the tax and other incentives given for new foreign investors to the existing local companies who want to add value, expand and upgrade their operations.



## **EASL'S AFFILIATION WITH OTHER ORGANIZATIONS ON EXPORT RELATED MATTERS**

### ***i) The Ceylon Chamber of Commerce***

Participation in monthly Chamber Committee meetings:

### ***ii) Employers Federation of Ceylon***

As an Affiliated Association of the EFC, EASL participated in EFC regular meetings, where employee related matters were discussed.

## **AWARENESS BUILDING ACTIVITIES**

### **A) Dissemination of Information**

The membership was alerted on various issues affecting exporters, as well as matters of interest, by way of Circulars issued by EASL as well as the Ceylon Chamber of Commerce and various other affiliated bodies of the relevant local Chamber. This included information on matters of business interest to members, notices of topical seminars/workshops organized by the Ceylon Chamber of Commerce and affiliated Associations/Councils.

In addition, on Managing Committee's invitation Mr. V. Balagobi and Mr. Amindra De Silva joined committee meeting to do a presentation on "Cyber Security issues and Challenges".

Mr. Amal Rodrigo, Director, Hayleys Free Zone Limited shared his experience on "Free zone concept and how can Sri Lankan export companies make use of this opportunity". Members were also invited for these discussions.

### **B) Seminars/Interactive forum**

#### **Seminar on New Foreign Exchange Act by PwC & EASL**

19<sup>th</sup> January 2018 at the Ceylon Chamber of Commerce



*Members of the Panel*



**Charmaine Tillekeratne** - Presenter and Moderator -  
Director, Tax Services- PricewaterhouseCoopers



The main presentation was delivered by Ms. Charmaine Tillekeratne, Director, tax Services – PricewaterhouseCoopers. The panelists expressed their views highlighted below during the panel discussion.

“There is so much confusion in what’s going on with the Act. We find the ambiguity that exists between the Central Bank, Finance Ministry and Inland Revenue Department (IRD) in executing the new regulations,” Exporters’ Association of Sri Lanka (EASL) Immediate Past President Fazal Mushin said, at a seminar on the new Foreign Exchange Act organised by the Ceylon Chamber of Commerce.

Although there were high expectations that the introduction of IRD’s Revenue Administration Management Information System (RAMIS) would make collecting taxes hassle-free and revolutionise tax culture in Sri Lanka, Mushin pointed out that the reality was very different.

“Of course RAMIS is there, but it is nowhere near completion. We don’t know when it will be completed. In a competitive environment, this is causing us inconvenience. Everyone here is supposed to serve us, to improve and increase exports. Yet, continuously our systems and policies let us down,” Mushin said.

In the context of the legal requirement introduced for repatriation of the proceeds, Mushin said that they had only 180 days, whereas other countries were given 300 days.

“We can bring money from abroad, pay 1% and do money laundering. But if we want to pay commission to an agent, we need to get a tax clearance. Do we have time for all these as exporters? I don’t think so. Where do we take our grievances? I would like to see some clarity from policy level,” Mushin stressed.

Hayleys Group Tax Head Roshan Anselm also stated that it was puzzling how the outdated regulation has again been included in these modern and forward-looking regulations.

“Export surrendering was prevalent before 1993. In 1993 the requirement to surrender was abolished to promote merchandise exports. Then in the 2015 Budget speech, there was a verbal appeal for exporters to bring in foreign currency and in 2016 it was gazetted and it went to the 2017 foreign exchange regulation. We don’t know how,” Anselm said.

Noting that it was not about the number of days, Anselm emphasised that the fiscal policy and the regulatory policy should not interfere with trading practices. “Therefore, my humble request would be that policy makers take a serious note of this. This Act is not the end, but the beginning. Hence, during future amendments, make suitable revisions,” he said.

Central Bank Foreign Exchange Department Director Udeni Alawattage stated: “After signing IMF Article No. 8 in 1993, almost all countries that signed it shouldn’t have this kind of restriction. Despite that, developing countries like Sri Lanka, India, Pakistan, Indonesia, Thailand, all countries have restrictions.” However, he noted that there were two arguments: the first being, once a country signs the IMF Article No. 8 there should not be restrictions to accommodate free cross-border transactions. The second argument is that as the export resources being used are domestic resources, after

conducting all business the ultimate proceeds should come to Sri Lanka. “After drafting all these directions and regulations, in my covering letter sent to the Minister, I mentioned there in bold letters, that the export proceeds regulation and 2002 gazette in 40% ownership limitation has to be revisited. However, for some reason it has not been considered and included in the gazette,” Alawattage pointed out.

Alawattage asserted that the legal requirement introduced for repatriation of the proceeds should be negotiated with the Government. “This 120 days export proceeds matter imposed by the Central Bank was a Cabinet decision. We need Cabinet approval for that. We are in the process of negotiating that with the Government,” he added.

### **Banks likely to face challenging times ahead of executing new Foreign Exchange Act**

With the introduction of the new Foreign Exchange Act, the banks are likely to face a challenging time ahead. This was stated by Hatton National Bank Financial Institutions Head Mr. P.Srikanth, as they are now being tasked to take final discretion on cross border transactions.

“The banks now need to exercise the due diligence and the bona fide which the Central Bank has passed on to us. It is a major challenge to verify the authenticity of the documents and bona fide the transactions. The tough task here is that all the transactions are treated as current transactions,” he said at a seminar on the new Foreign Exchange Act organised by the Ceylon Chamber of Commerce last week.

In this regard, Mr. Srikanth pointed out that it was important for the banks to follow uniformity in whatever the required document to each transaction, which would otherwise cause rise in competition to unethical behaviour in the industry.

- **Calls on industry to follow uniformity for required documents as it could lead to unethical competition in the industry**
- **Maintaining all records for six years further burdens banks, suggests electronic storing mechanism**

“We have to do the due diligence based on whatever the documents given. Instances where a document doesn’t reflect clarity, we may call for some declaration. Therefore, the banks need to have uniformity in terms of verifying documents and if not discretion where banks are adopting different basis will lead to unethical competition,” he emphasised.

Previously, when the criteria given to execute the transaction were not clear he said the banks had to direct the issue to the Exchange Control Department of the Central Bank and now it doesn’t require the customer to go back there for any verification as banks are now being tasked to do the final discretion. Mr. Srikanth also stated that the bigger burden the banks would face was probably to keep all these records for six years according to the Act.

“It is a mandatory requirement to keep the transaction records for a period of six years and the banks now have to find a way to keep them for this long. I suggest that the banks will have to do it in an electronic form,” he added.

However, he said the introduction of the new Foreign Exchange Act overall was a positive move.

## Govt. to implement debt repayment levy from 1 April

Clearing the ambiguity within the banking community, the Government said that the debt repayment levy would be implemented through the Finance Act, which is expected in April.

“The debt repayment levy will be implemented through the Finance Act and is expected in April 2018,” Finance Ministry Economic Advisor Deshal de Mel said in response to a question raised by the banking industry at a seminar organised by the Chamber titled ‘Building on Stability: Economic + Sector Review and Outlook 2018’ on 22 January. A participant from the banking fraternity called for clarity from the administration, insisting that bankers find it difficult to forecast if the proposed regulation will be implemented from 1 April. Acknowledging the concerns of the banking industry, de Mel pointed out that there have been discussions with the banks and there was still a consultative process regarding the implementation of the proposed law.

“There have been submissions from the industry requesting clarifications and a rationalisation of the types of transactions subject to the levy. This is under consideration. We have had discussions with the industry. We are working on it,” he added.

Since the proposed debt payment levy is directly involved in the Finance Act, he emphasised that they would do the evaluations of the transactions in the consultative process and make amendments accordingly.

“There are a couple of more months for it (debt payment levy) to come into place,” de Mel added. He assured that the debt repayment levy would be implemented with a view to achieve the anticipated revenue requirement of the Government, while ensuring minimal disruptions to the industry.

The 2018 Budget proposed to raise Rs. 20 billion through a special Debt Repayment Levy (DRL) at the rate of 20 cents per Rs. 1,000 on total transactions made through banks from 1 April. This will be applicable only for three years and shall not be passed on to customers.

The technical notes to the Budget state that the DRL will be introduced on cash transactions by financial institutions. They add that the levy will be charged on total cash transactions and should be paid by the financial institutions. (CdS)



*Participants*

**C) Website**

The site has proved to be an extremely useful information tool. <http://www.exporterssrilanka.net>.

**D) Publicity**

Several Press releases and interviews were given by EASL to create awareness of developments and issues in the Sector, and the future outlook.

**E) Membership**

The Membership as at 31<sup>st</sup> March 2018 consisted of 84 individual Exporter members and 11 Product Associations.

**F) Auditors and Annual Accounts**

The Auditors of the Exporters Association of Sri Lanka for the period 2017/2018 were Messrs. HLB Edirisinghe & Co. The Audited Accounts of the Association is attached.

**G) Secretariat**

The Ceylon Chamber of Commerce continued to provide Secretarial Services to the Association during the period under review.

*BY ORDER OF THE COMMITTEE*

Sgd.

**Manori Dissanayaka**  
**For Secretary**

## **EXPORT SECTOR PERFORMANCE IN 2017/2017** **AND FUTURE EXPORT CHALLENGES**

### **OVERVIEW OF THE ECONOMY**

The Sri Lankan economy grew at a moderate pace of 3.1 per cent in 2017, compared to the growth of 4.5 per cent in 2016, amidst the challenges arising from both domestic and external fronts. Severe drought conditions that prevailed particularly in the major cultivation areas hindered the growth in agriculture activities, even though a rebound was observed during the last quarter of the year, benefitting from the recovery in paddy production during the 2017/18 Maha season. Meanwhile, Industry and Services activities contributed positively to economic growth even in the backdrop of spillover effects from subdued agriculture performance. The reinstatement of GSP+ boosted manufacturing activities, providing stimulus for Industry activities, amidst the moderation observed in construction activities. Services activities expanded largely supported by the growth in financial services, and wholesale and retail trade activities. Further, the rationalisation of government expenditure and the tight monetary policy stance also affected the economic growth in 2017. Moreover, the business surveys conducted by the Central Bank also indicated subdued business conditions during the year. Meanwhile, investment expenditure grew at a slower pace compared to the previous year whereas consumption expenditure, which witnessed some slowdown in the previous year, accelerated in 2017. Even though exports grew at a higher rate benefitting from the stronger recovery of some of the Sri Lanka's major export destinations such as the US and Europe, the substantial increase in imports resulted in a further deterioration of the net external

demand. Meanwhile, the domestic savings grew at a slower rate while the net primary income from the rest of the world continued to

contract during the year. Further, net current transfers from rest of the world moderated reflecting the slowdown in workers' remittances partly due to geopolitical tensions and uncertainties in some regions including the Middle East. Reflecting these developments, growth in national savings moderated during the year and the resources gap broadened due to the relatively high growth in investment.

During 2017, GDP as estimated by the Department of Census and Statistics (DCS), at constant prices recorded a moderate growth despite the higher growth observed in GDP at current market prices<sup>1</sup>. GDP at current market prices was estimated at Rs. 13,289.5 billion (US dollars 87.2 billion) in 2017, while it stood at Rs. 11,906.8 billion (US dollars 81.8 billion) in 2016. Accordingly, GDP recorded a 11.6 per cent growth at current market prices in 2017 compared to 8.7 per cent growth in 2016. This was reflected by the percentage change in GDP implicit deflator, which increased to 8.2 per cent in 2017, from 4.1 per cent in 2016. Meanwhile, GDP at constant market prices was estimated at Rs. 9,315.5 billion in 2017, compared to Rs. 9,034.3 billion in 2016.

Accordingly, at constant market prices, GDP growth moderated to 3.1 per cent in 2017, compared to 4.5 per cent growth in 2016. GDP per capita was estimated at Rs. 619,729 in 2017, compared to Rs. 561,560 in 2016, recording an increase of 10.4 per cent in comparison to 7.5 per cent increase in 2016.



This was driven by the growth of GDP at current market prices since the mid-year population growth rate was fairly stable. Moreover, the per capita GDP in US dollar terms increased to US dollars 4,065 in 2017, compared to US dollars 3,857 in 2016, recording a higher growth rate of 5.4 per cent, compared to the marginal growth of 0.4 per cent in 2016, mainly due to the higher growth of GDP at current market prices amidst the moderate depreciation of domestic currency against the US dollar. GNI, which is estimated by adjusting GDP for the net primary income from the rest of the world, increased to Rs. 12,933.2 billion at current market prices, recording a growth rate of 11.6 per cent in 2017, compared to 8.5 per cent growth in 2016. This growth in GNI was a combined outcome of the increase in the GDP growth at current market prices and the slowdown in the negative growth of net primary income in 2017, which recorded a contraction of 10.9 per cent during the year compared to 16.9 per cent contraction in 2016.

The stabilisation policy measures taken by the Central Bank and the government in the past two years resulted in a number of notable improvements, although real economic growth faltered and recorded a multi year low during 2017. The monetary policy stance of the Central Bank that was gradually tightened since end 2015, was tightened further in March 2017 by raising the key policy interest rates of the Central Bank by 25 basis points. Increasing market interest rates were allowed to stabilise at high levels. Nevertheless, the improvements in relation to the government securities market, which corrected some distortions that prevailed in 2015 and 2016, resulted in a significant decline in yields on government securities, thus exerting a downward effect on some market interest rates towards the end of the year. The high nominal and real interest rates, together with supportive macroprudential measures, prompted a gradual deceleration in the growth of monetary aggregates in 2017. This

deceleration was effected via more active open market operations (OMOs) through which the Central Bank maintained appropriate levels of liquidity in the domestic money market by reducing the Central Bank holdings of government securities substantially in order to offset the impact of the rapid buildup of net foreign assets (NFA) of the banking system due to net purchases of foreign exchange inflows by the Central Bank. While active OMOs helped the Central Bank to maintain short term interest rates, particularly the interbank call market rate, at desirable levels, the enhanced monetary policy communication strategy helped anchor inflation expectations, despite higher than expected headline inflation driven by supply side disturbances. Several measures were introduced to deepen and develop the domestic foreign exchange market further during the year. Such measures helped the Central Bank to purchase a significant amount of foreign exchange from the domestic market without creating excess volatility in the exchange rate, while facilitating a market based exchange rate aligned with macroeconomic fundamentals. Consequently, gross official reserves increased to US dollars 8.0 billion by end 2017 with an accompanying qualitative improvement. The overall balance of the balance of payments (BOP) recorded a surplus of US dollars 2.1 billion in 2017 after two years of deficits, as a result of significant inflows to the financial account. Substantial inflows were observed in the form of debt capital, while foreign direct investment (FDI) recorded the highest ever inflows in 2017 supported by improving investor sentiments. In the external current account, although earnings from exports increased to the highest levels recorded, the increase in imports, mainly arising from drought related imports of petroleum and rice as well as increased importation of gold, caused a wider trade deficit. Although inflows on account of services exports including tourism, and workers' remittances continued to cushion the impact of the widened trade deficit to some extent, the current account recorded a deficit of

2.6 per cent of GDP during the year. The Sri Lankan rupee depreciated against the US dollar by 2.0 per cent during the year, while the real effective exchange rate indices also depreciated, raising the competitiveness of the currency. Such a fairly-valued currency in real terms, is expected to enable a gradual adjustment of the current account deficit of the BOP in the period ahead.

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In relation to public finance, the revenue based fiscal consolidation programme continued, resulting in increased tax revenue as a percentage of GDP as well as a surplus in the primary account, which reflects the difference between revenue and non-interest expenditure, for the first time since 1992 and only the second time since 1955. Nevertheless, revenue collection was lower than expected, while government spending was affected by the need to provide relief to the people affected by inclement weather conditions, and also by the

rising interest payments. This resulted in an expansion in the overall budget deficit to 5.5 per cent of GDP. While the surplus in the primary account helped reduce the central government debt as a percentage of GDP to a certain extent, relatively high real interest rates in the government securities market compared with real GDP growth contained further favourable adjustment in public debt dynamics. The continued generation of higher primary surpluses, together with increased real GDP growth and moderate real interest rates, is expected to generate favourable public debt dynamics at a faster pace in the future. Adverse weather conditions and their spillover effects continued to affect real economic activity, and the economy surprised to the downside by recording a growth of 3.1 per cent in real terms. This was significantly below projections of the Sri Lankan authorities as well as international agencies. In spite of the low real GDP growth, the economy created sufficient employment opportunities that induced a further reduction in the unemployment rate to 4.2 per cent during the year. In terms of expenditure, growth was supported by the expansion of both consumption and investment expenditure in 2017, while net external demand continued to weigh on growth negatively. Both services and industry related activities, which together account for 92.4 per cent of gross value added, recorded growth rates of below 4 per cent. The agriculture related activities recorded a negative growth for the second consecutive year, although estimates for Quarter 4, 2017 indicated a recovery in the sector. Headline inflation displayed twin peaks during the year, with the first peak in March 2017 and the second in October 2017, and remained above the desired mid single digit levels in most months due to double digit food inflation. However, core inflation moderated gradually during the year, as monetary policy measures to contain inflation took effect. With the moderation of food inflation, headline inflation decelerated considerably by the first quarter of 2018, and the favourable inflation and inflation



outlook as well as the weak real GDP growth prompted the Central Bank to signal an end to the tightening cycle of monetary policy, by lowering the upper bound of the policy interest rate corridor by 25 basis points in April 2018.

Meanwhile, with the exception of a few small non-bank financial institutions, the financial sector performed well amidst measures taken by the authorities to ensure the stability of the financial sector and to strengthen financial markets and related infrastructure. Several initiatives were taken to address possible forbearance in regulation and supervision, particularly in relation to non-bank financial institutions and primary dealers in government securities. Stronger enforcement mechanisms were introduced to take prompt action against any non-compliance of regulations. The rule based and transparent auction mechanism for government securities helped reduce the volatility in interest rates and helped the smoothing out of bunching up domestic debt maturities. The new Active Liability Management Act (ALMA) is expected to provide greater flexibility in managing future bunching of both domestic and external debt. Furthermore, the Extended Fund Facility programme with the International Monetary Fund (IMF-EFF) progressed, with the economy achieving the end year targets in relation to net international reserves, the government's primary balance, and inflation. Going forward, addressing the weak growth performance of the economy through the implementation of required growth supporting reforms will remain a priority. Sri Lanka has advanced gradually to reach a per capita GDP of US dollars 4,065 by 2017, establishing itself as a middle income economy. However, the country can progress further only if policymaking remains rational with a long term focus on greater public good, while minimising policy swings motivated by short term political gains. Therefore, it is essential that the envisaged reforms are institutionalised to ensure their sustainability, enabling the country's unhindered progression

under increasingly challenging global and domestic conditions. In this regard, notable progress has already been achieved in terms of implementing the Inland Revenue Act (IRA), enacting the ALMA and the Foreign Exchange Act, and reaching a consensus with regard to improving the independence of the Central Bank and facilitating the move towards flexible inflation targeting (FIT) by 2020. Much remains to be done in relation to strengthening public financial management and ensuring fiscal sustainability through the adoption of binding fiscal rules, and also with regard to the implementation of a trade and investment facilitation framework that could enhance the country's overall productivity and effectively link the Sri Lankan economy to global production networks. The formulation and implementation of policies must also take into consideration the effect of such policies on the vulnerable segments of the population as it is the poorest of the society who suffer most from failed policy experiments.

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short term political gains. Therefore, it is essential that the envisaged reforms are institutionalised to ensure their sustainability, enabling the country's unhindered progression under increasingly challenging global and domestic conditions. In this regard, notable progress has already been achieved in terms of implementing the Inland Revenue Act (IRA), enacting the ALMA and the Foreign Exchange Act, and reaching a consensus with regard to improving the independence of the Central Bank and facilitating the move towards flexible inflation targeting (FIT) by 2020. Much remains to be done in relation to strengthening public financial management and ensuring fiscal sustainability through the adoption of binding fiscal rules, and also with regard to the implementation of a trade and investment facilitation framework that could enhance the country's overall productivity and effectively link the Sri Lankan economy to global production networks. The formulation and implementation of policies must also take into consideration the effect of such policies on the vulnerable segments of the population as it is the poorest of the society who suffer most from failed policy experiments.

## **Global Economic Environment and Outlook**

According to the World Economic Outlook (WEO) of the IMF, the global economy continued to gain momentum in 2017 with a substantial majority of economies registering a pickup in growth. Two thirds of the world economies, comprising emerging and developing economies as well as advanced economies, registered higher growth rates in 2017, compared to 2016. For the first time

since the Global Financial Crisis, there is synchronised growth in the US, UK, EU and Japan. Growth in the advanced economies and China was triggered mainly by the increase in expenditure on fixed capital formation and accommodative monetary policy, while an increase in private consumption contributed to increased growth in most emerging market economies. Global trade recovered strongly and

recorded substantially higher levels in 2017 compared to the past two years, despite the beginning of a series of successive retaliatory trade restrictions imposed on each other by the US and China. During the year, oil prices escalated as a result of the strengthening global growth momentum, supply side disruptions in the US, a unanimous Organisation of the Petroleum Exporting Countries Plus (OPEC+) agreement to curb oil production and geopolitical tensions in the Middle East. Despite the rapid rise in crude oil prices in late 2017, prices are expected to decline in the medium term with US production reaching record levels on the back of increased shale oil supplies. The increase in oil prices partly contributed to the increase in headline inflation in most economies. Prices of most types of commodities, including petroleum, Liquefied Natural Gas (LNG), metals and agricultural products, increased considerably in 2017, compared to the previous year.

Despite the overall strengthening of global growth in 2017, low levels of inflation called for the continuance of an accommodative monetary policy in most advanced economies. The US economy continued to show signs of a strengthening labour market and rising economic activity, despite brief episodes of volatilities resulting from natural disasters. In light of this, the US Federal Reserve proceeded to increase the Federal Funds target rate in March, June and December 2017, and again in March 2018. US tax reforms are expected to improve further in 2018 and 2019 with better prospects for both advanced and emerging economies in terms of investment, production and trade, though possibly in the face of tightening financial market conditions and disruptions arising from trade wars between key global economies. The cyclical upturn registered in the last two years, which was synchronised across a broad cross section of advanced, and emerging and developing economies, is expected to augment further to

stimulate near term activity, but this is not expected to negatively impact inflation as the Federal Reserve is expected to undertake further policy rate hikes during the course of the year. Economic activity of the UK, however, was negatively impacted by its decision to leave the EU and due to the effect of the referendum-related depreciation in the sterling pound. Japan and several euro area economies, including Germany, experienced a strong momentum in domestic demand as well as external demand during the year. Although China continued to progress on the 'Supply Side Structural Reform' programme, the lack of resolution of several structural problems are expected to cause some moderation of growth in 2017. With the dissipation of the negative effects of the demonetisation and the teething problems of the Goods and Services Tax (GST), prospects for the Indian economy improved. The US dollar remained lacklustre during the year amidst the strengthening of other major currencies and due to policy uncertainties. However, a largely synchronised expansion across the euro area stemming from improving labour markets and an accommodative monetary policy helped buoy the euro in 2017. The strength of the yen has been supported by the recovery of the Japanese economy and the currency's safe haven status. In spite of increased global market volatility, financial flows and portfolio flows to emerging market economies remained robust during the year.

record higher growth rates in the next two years and begin to moderate thereafter with growth in advanced economies returning to potential levels. Global growth in the next two years will mainly be driven by the pickup in domestic and external demand of the US, Europe and advanced Asian economies, as well as the effects of tax policy changes in the US that involved corporate tax reductions. In the US, fiscal adjustments to offset the deficit created through the tax reduction are expected in the medium term. Meanwhile, emerging and

developing Asia is projected to grow at 6.5 per cent and 6.6 per cent, respectively, in the next two years. The effects of enhanced growth and business sentiment in the advanced nations are expected to spill over to the emerging market economies mainly through trade channels. The main risk factors affecting the aforementioned improvement in the growth momentum in the world are: the possible tightening in financial markets, if the inflation in the US shows signs of being higher than anticipated, triggering faster policy rate tightening by the Federal Reserve System; and the escalation of the trade war between the US and China. Risks are present also in the realm of the financial sector. With low interest rates and low volatility in asset prices that persisted in the last few years, more finances have flowed into financial assets with higher risks and less creditworthy borrowers. Meanwhile, the major trade agreements, involving the US and the UK, that are being renegotiated, as well as the progress of the 'One Belt One Road' initiative, will have a significant bearing on production, trade and investment across the globe in the next few years. Non-economic factors such as climate change, natural disasters and increase in political risks in some regions of the world would also pose considerable risks for global economic outcomes.

In this global context, Sri Lanka needs to make a firm commitment to expeditiously carry out the implementation of growth focused policy

measures in order to tap into the enhanced production and trade levels in the world, while strictly managing sovereign and corporate exposure to international financial markets. Sri Lanka's economic growth has been well below the average growth rates of emerging market economies, and declined below the global growth estimate in 2017. Therefore, Sri Lanka needs to urgently make a firmer commitment to carry out well focused strategies to make use of the increase in demand in the advanced nations and to manage volatile capital flows. The continued geopolitical tensions in the Middle Eastern region further highlights the need to rely less on workers' remittances and promote export focused industries instead. The escalation of the trade war between the US and China could have some bearing on Sri Lanka's trade not only with these two economies, but also with other trading partners through value chains. On the fiscal and monetary fronts, the possibility of increases in interest rates in the global financial markets could increase the cost of sovereign and corporate debt issued at flexible rates, while making new issues of debt instruments costlier. Therefore, managing external debt at prudent levels, while closely monitoring the exposure of financial institutions in Sri Lanka to global markets, will be crucial in the medium term.



## 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.

## 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 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 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.

## **SECTORAL EXPORT PERFORMANCE 2017/2018**

### **Tea**

Tea production recorded a positive growth in 2017, reversing the declining trend of the past four years. Accordingly, production recovered with a growth of 5.2 per cent, resulting in an output of 307.7 million kilogrammes in 2017, compared to 292.6 million kilogrammes in 2016. The reversal in the trend for tea production after the continuous decline in recent years was recorded amidst crop losses resulting from dry weather conditions that prevailed in major tea growing areas since 2015, restrictions on the application of selected weedicides such as glyphosate and labour constraints leading to high cost of production. However, tea production revived owing to most factories operating at increased capacity and favourable agro-climatic conditions in many tea planting districts, particularly during the second half of the year which were ideal for the rapid growth of tea leaves. The highest share of total tea production amounting to 64.3 per cent was from low grown tea, which increased by 7.5 per cent to 197.4 million kilogrammes in 2017. High grown tea, which accounted for around 21

per cent of the total tea production, witnessed a marginal growth of 0.3 per cent to record an

output of 64.6 million kilogrammes. Production of medium grown tea increased marginally by 2.6 per cent to 45.7 million kilogrammes in 2017, compared to the previous year. Meanwhile, the tea smallholder sector contributed to 75.4 per cent of the total tea production in 2017. The average prices at the Colombo Tea Auction (CTA) witnessed a continuation of the upward momentum recorded since the last quarter of 2016, with increased demand from some of the major importers. Average price at the CTA for the year 2017 increased significantly by 31.1 per cent to Rs. 620.44 per kilogramme, compared to the previous year.

The highest increase was recorded for high grown tea (35.6 per cent), followed by medium grown tea (32.2 per cent) and low grown tea (30.4 per cent). The average export price of tea (FOB), increased significantly by 26.2 per cent to Rs. 807.44 per kilogramme during 2017,

from Rs. 639.88 per kilogramme recorded during 2016, supported by higher demand and the depreciation of the domestic currency. The volume of tea offered at the CTA recorded a marginal increase of 0.1 per cent in 2017, while export earnings grew by 20.5 per cent during the year when compared to 2016. The average price received by tea smallholders for green leaf increased to Rs. 90.69 per kilogramme in 2017, from Rs. 68.53 per kilogramme in 2016. The steady rise in global oil prices during 2017 had a favourable impact on the income levels of major tea importing countries, resulting in a higher demand for Sri Lankan tea. Meanwhile, Turkey has maintained its position as the leading importer of “Ceylon Tea”. It is envisaged that this increasing trend in tea prices

## Rubber

Rubber production grew by 5.1 per cent to 83.1 million kilogrammes in 2017, from 79.1 million kilogrammes recorded in 2016. This growth in natural rubber production was achieved amidst unfavorable weather conditions, particularly during the first half of the year, which resulted in severe floods in traditional rubber growing areas. Among the major categories of rubber produced, sheet rubber production, the largest component of total rubber production, increased by 4.4 per cent to 41.5 million kilograms, while crepe rubber production decreased considerably by 23.3 per cent to 11.5 million kilograms in 2017. Meanwhile, the production of unspecified category of rubber recorded a significant increase of 23.9 per cent to 30.1 million kilograms during 2017, when compared to the previous year. The average yield for rubber was 809 kilograms per hectare in 2017, which was a marginal increase of 1.1 per cent from the average yield recorded in 2016. The low yield in rubber was primarily driven by the decline in the number of tapping days, particularly in the smallholder sector, where key producers of

would encourage domestic tea producers to increase production during 2018 as well. However, the yield per hectare is low in Sri Lanka when compared with major tea producing countries in the world highlighting the need to encourage new planting and replanting.

Ribbed Smoked Sheet (RSS) slowed down tapping operations in

response to adverse weather conditions. Nevertheless, the cost of production of rubber has been increasing over the years, and in 2017 it increased by 8.3 per cent to Rs. 195.00 per kilogramme, from Rs. 180.00 per kilogramme that was recorded in 2016, making rubber production less attractive for the smallholder sector. Domestic rubber consumption declined by 9.2 per cent in 2017 to 129 million kilogrammes, since industries depended on imported raw material for their value added products mainly due to the lower prices quoted for imported raw material. Natural rubber exports increased by 6.6 per cent to 17.2 million kilogrammes in 2017 compared to the previous year. With the increase in global rubber prices towards the end of 2017, the domestic market also witnessed an increasing trend in prices. The favourable global demand, particularly for natural rubber, improved local prices of latex crepe and RSS Number 1 (RSS1). The average price of RSS1 registered a significant increase of 40.7 per cent to record Rs. 336.72 per kilogramme, whilst the average

price of latex crepe also witnessed an increase of 34.1 per cent, attracting Rs. 351.71 per kilogramme at the Colombo Rubber Auction during 2017. China, the largest rubber consuming economy in the world, increased its import volumes to replenish its gradually depleting buffer stocks. This indicates that the demand for domestic rubber is likely to

increase in the medium term, which is an encouraging development for the local rubber manufacturing industry. However, to harness the full potential of the rubber sector, domestic backward and forward linkages need to be developed to promote higher domestic value addition and reduce the dependence on foreign demand.

## Coconut

Coconut production, which recorded a marginal drop of 1.4 per cent to reach 3,011 million nuts in 2016, declined substantially by 18.7 per cent to 2,450 million nuts in 2017. The decline in coconut production was mainly attributed to the lagged effect of the prolonged drought conditions, which commenced in 2016 and continued into 2017 in the major coconut growing areas. The drought situation had a severe impact on major coconut growing areas, such as Kurunegala, Puttalam and Gampaha, which resulted in lower coconut production throughout the year.

The decline in coconut production was particularly severe in the last quarter of 2017, where the production declined by 28.2 per cent to 539.4 million nuts, in comparison to the corresponding quarter of 2016. This contraction in nut production impacted adversely on coconut related industries as well. Accordingly, desiccated coconut production decreased by 42.2 per cent, to 29,557 metric tons in 2017 from 51,117 metric tons in 2016. Meanwhile, coconut oil production decreased substantially by 73.8 per cent from 48,805 metric tons to 12,784 metric tons and virgin coconut oil production decreased by 11.4 per cent from 16,067 metric tons to 14,233 metric tons. Despite the reduction in nut production, coconut cream, coconut milk powder and coconut milk production increased by 10.1 per cent to 46,941 metric tons in 2017, compared to 42,643 metric tons in 2016, owing to the increased export demand. The decline in

coconut production that created a severe shortage of nuts for consumption as well as for industrial usage resulted in coconut prices escalating to unprecedented levels in 2017. Accordingly, the average wholesale price of fresh nuts in the local market increased significantly by 95.2 per cent to Rs. 62.71 per nut. Consequently, the average retail price of fresh nuts increased by 47.1 per cent to Rs. 67.40 per nut during the year. The three major kernel product exports, namely desiccated coconut, copra and coconut oil, decreased by 39.0 per cent, with export earnings from these products recording a decrease of 8.1 per cent. Meanwhile, the average cost of production, which is estimated at Rs. 16.69 per nut remained unchanged in 2017 compared to 2016. The government took a number of measures to ease the supply shortfall and subsequent price pressures. Accordingly, the Coconut Development Authority (CDA) temporarily discontinued issuing approvals for fresh nut exports from June 2017. Meanwhile, coconut processors requested to liberalise coconut imports, considering the short supply of coconuts in the domestic market to fulfil regular export demands. Accordingly, a policy decision was taken to import coconut kernel required for industries, subject to the recommendations of the committee appointed to monitor the importation of coconut kernel. Meanwhile, considering the market situation, the government revised the SCL on palm oil products with the aim of reducing the demand for coconut towards coconut oil production.

## Minor Export Crops

Production of minor export crops declined in 2017 compared to 2016. According to the Department of Export Agriculture, the production of minor export crops (MECs), which consist of 12 major types of crops, registered a decline of 5.9 per cent to 131,189 metric tons. While the production of some crops, such as cinnamon, pepper, cloves and nutmeg increased considerably, the production of crops such as cardamom, coffee, cocoa, arecanut, betel leaves, ginger, turmeric and citronella declined. The reduction in production was a result of multiple factors, such as dry weather and the unusual shift in rainfall patterns in MEC growing areas, increase in the cost of production and price fluctuations in

export markets. The planted extent increased in 2017, especially for cinnamon, pepper and citronella. Meanwhile, the volume of MEC related exports increased by 31.7 per cent in 2017 to 57,703 metric tons, over 2016. Betel leaves recorded a notable increase in exports during 2017, compared to 2016. Meanwhile, import volumes of MECs in 2017 had also increased by 16.0 per cent compared to 2016, mainly due to the increase in the import of pepper, cocoa, turmeric and ginger. Pepper imports to Sri Lanka were banned by the government following concerns that low quality imports were being re-exported to other countries under the existing trade agreements.

## Vegetables

Vegetable production, which improved in 2016 amidst adverse weather conditions, recorded a decline in output during 2017. Vegetable production dropped by 9.1 per cent to 1.5 million metric tons in 2017. Production of both low-country and up-country vegetables decreased considerably due to the adverse weather conditions that prevailed throughout the year. As the onset of both monsoons delayed, the commencement of cultivation of both the Maha and Yala seasons, particularly in the up-country areas was delayed. Resultantly, the extent of vegetables cultivated decreased by 6.7 per cent during the year. This was the combined effect of a 7.6 per cent decrease of the cultivated extent during the 2016/17 Maha season and 5.5 per cent decrease in the cultivated extent during the 2017 Yala season. Responding to the lower production of vegetables, the prices remained high during the

first half of the year and subsequently decreased during the third quarter of the year with the commencement of harvesting during the 2017 Yala season. However, prices escalated again during the fourth quarter of the year, with the onset of the off peak season for vegetables. However, vegetable production in Jaffna helped to curtail the price pressure in the market to some extent. On the other hand, the high percentage of post-harvest losses during handling contribute towards the escalation in prices, which needs to be reduced, particularly against the backdrop of adverse weather conditions, with a view to mitigating price pressures. Accordingly, the Agriculture sector would benefit from a well managed agriculture logistics network, particularly with respect to highly perishable crops. Meanwhile, 21,696.6 metric tons of vegetables valued at Rs. 4.3 billion were exported during the year. The shift



towards commercial agricultural activities that has the potential for investment in better technology would support export earnings as well as enhance livelihoods of people who are

## **Fruits**

There was an increase in overall fruit production by 9.5 per cent to 1,569,858 metric tons in 2017. The production of plantain, mango, papaw, melon, pineapple and guava increased, while the production of oranges, lime, passion fruit and avocado declined from the previous year. Despite the increased production, fruit prices remained elevated due to the high demand, particularly from the tourism sector. During 2017, Sri Lanka imported 76,139.3 metric tons of fruits valued at Rs. 12.9 billion, while exporting 31,320 metric tons valued at Rs. 6.3 billion. Even

engaged in these activities. Fruits Fruit production increased during 2017, recovering from the decline in production that was recorded in the previous year.

though a large variety of fruits are being exported, export oriented commercial cultivation is limited to a few crops such as plantains and pineapples, which are cultivated in an organised manner as an inter crop. Although Sri Lanka exports a considerable amount of fruits, the sector could be further developed through commercial cultivation methods such as investing in controlled environments using tissue cultured plants, which would increase the output as well as the quality of the produce.

## **Textiles & Apparel**

The expansion in the manufacture of textiles, wearing apparel and leather related products, which grew by 5.7 per cent in 2017 compared to 1.8 per cent growth in 2016, mainly contributed to this growth. The favourable impact of the reinstatement of GSP+ stimulated the expansion in the manufacture of textiles, wearing apparel and leather related products, particularly during the second half of the year

Based on the IIP, the manufacturing of wearing apparel grew by 4.7 per cent in 2017, against the 5.7 per cent growth of the previous year. Increased exports to the European Union (EU), following the restoration of the EU GSP+ facility in May 2017, as well as to the USA, Canada and other non-traditional markets facilitated this growth. Production of textiles on the other hand, reflected a growth of 2.3 per cent in 2017, lower than the 4.0 per cent growth reported in 2016. This growth was mainly driven by the enhanced production of finished

fabrics and printed fabrics, particularly during the second half of 2017. Meanwhile, a healthy demand for local textiles from the USA, Kenya, Turkey and Vietnam supported this expansion. Apparel and textile manufacturing is a fast moving dynamic industry. With a variety of factors affecting the success of the industry, productivity enhancement to face price competition, market intelligence for fast responsiveness to rapidly changing customer preferences, product and design development are some of the decisive factors that can contribute towards the growth in the sector. Growing popularity of online sales platforms and increasing demand for 'fast fashion' are challenging the entire supply chain in terms of speed and flexibility. At the same time, sustainable manufacturing is gaining prominence in supply chains, from sourcing to product distribution, to make the global value chain more eco-friendly. However, increasing labour costs, amidst the scarcity of labour has



become a challenge for local industry. Thus, investing in technology, automation and

robotics will support the industry to remain competitive in the global market.

## **Fisheries**

During 2017, fish production remained almost unchanged compared to the level recorded in 2016. There was a marginal increase in the total fish production by 0.1 per cent to 531,310 metric tons in 2017. Marine fish production, which accounted for 84.6 per cent of the total fish production in 2017, declined by 1.7 per cent to 449,440 metric tons, while inland fish production increased by 10.7 per cent to 81,870 metric tons. The reduction in marine fish production was a result of the decline in coastal fish production by 5.3 per cent to 259,720 metric tons, whereas offshore fish production, which comprise the rest of marine fishing, increased by 3.8 per cent to 189,720 metric tons. Inland fish production increased mainly due to the growth in inland capture by 17.3 per cent to 68,510 metric tons, while inland aquaculture, and shrimp and prawn production, which account for the remainder of inland fish production, declined by 7.9 per cent and 23.4 per cent, respectively, to 8,740 metric tons and 4,620 metric tons. While policy support and the removal of the ban on fish exports to the EU

helped sustain fish production, the adverse weather conditions that affected the Western and Southern coastal areas during May and November 2017, prolonged dry weather in the deep-sea and substantial post-harvest losses had an adverse impact on marine fishing. The National Aquatic Resources Research and Development Agency has estimated that 40 to 60 per cent of the fish catch is destroyed as unfit for both consumption and processing into dried fish. Meanwhile, the droughts that dried up inland water bodies and the “white spot disease” that spread among shrimp and prawns, affected inland fish production levels in 2017. Meanwhile, fish exports increased by 41.8 per cent in volume terms and 48.5 per cent in rupee terms, compared to 2016, following the removal of the ban on fish exports to the EU in 2016. Exports of fish to the EU accounted for 23.1 per cent of total fish exports in 2017, and grew by 125 per cent over 2016. Meanwhile, fish imports to Sri Lanka declined in 2017 by 8.4 per cent in volume terms and 3.4 per cent in rupee terms.

## **Mining and Quarrying**

Mining and quarrying activities grew by 14.4 per cent in 2016 in value added terms recovering from 5.2 per cent contraction recorded in 2015. The significant recovery in construction activities stimulated the expansion in mining and quarrying activities. Further, this recovery was reflected in the mineral exports volume index which increased by 7.9 per cent in 2016 recovering from 48.1 per cent

contraction in 2015. Moreover, gem exports increased by 8.4 per cent in quantity during the year against 17.1 per cent decline in 2015. The production of rutile and zircon expanded during the year, while that of ilmenite contracted. On the other hand, phosphate production contracted during the year mainly driven by the low demand for fertiliser manufacturing.

***EXPORTERS' ASSOCIATION OF SRI LANKA***

***FINANCE STATEMENTS  
FOR THE YEAR ENDED  
31 MARCH 2018***