5

EXTERNAL SECTOR DEVELOPMENTS AND POLICIES

5.1 Overview

Sri Lanka's external sector remained resilient in 2019 despite heightened domestic vulnerabilities. A substantial contraction in the trade deficit along with healthy inflows to the services account resulted in a surplus in the external current account in the first quarter of 2019. However, the current account was adversely affected by the developments following the Easter Sunday attacks, which impacted the tourism sector, in particular. With the gradual widening of the trade deficit especially towards the end of the year, and the decline in earnings from tourism and workers' remittances, the current account turned to deficit levels from the second quarter of 2019. However, the annual deficit remained significantly below the deficit in 2018. The overall contraction in the trade deficit in 2019 was driven by a significant reduction in the expenditure on merchandise imports, which was primarily due to the policy induced reduction in the importation of gold and motor vehicles. The healthy growth in merchandise exports observed in the first half of 2019 reversed in the second half, resulting in an overall modest growth in export earnings in 2019. Export growth in 2019 was primarily driven by the increase in exports of textiles and garments. The surplus in the services account was adversely affected by a significant decline in tourist earnings and transport earnings from air passenger services following the Easter Sunday attacks. The deficit in the primary income account widened marginally during the year with increased reinvested earnings and dividend payments by direct investment enterprises while the surplus in the secondary income account contracted with the moderation of workers' remittances.

The financial account of the Balance of Payments (BOP) was augmented with significant inflows during the year. Proceeds from the issuances of International Sovereign Bonds (ISBs) amounting to US dollars 4.4 billion as well as the receipt of two tranches of the International Monetary Fund's Extended Fund Facility (IMF - EFF) were the major inflows to the financial account in 2019. However, other flows to the financial account remained *moderate due to subdued levels of Foreign Direct Investments (FDI), while foreign investment in the government securities market and the Colombo Stock Exchange (CSE) recorded net outflows. The government made large debt repayments in 2019, including the settlement of maturing ISBs amounting to US dollars 1.5 billion, amortisation payments of foreign currency term financing facilities and the settlement of maturing Sri Lanka Development Bonds (SLDBs). Despite these debt repayments, gross official reserves strengthened in 2019 from US dollars 6.9 billion at end 2018 to US dollars 7.6 billion by end 2019. The increase in gross official reserves relative to reserve related liabilities was also reflected in the overall balance, which recorded a surplus of US dollars 377 million by end 2019.*

The Central Bank continued to maintain flexibility in the determination of the exchange rate during the year. The Sri Lankan rupee, which recorded a significant depreciation in 2018, appreciated marginally by 0.6 per cent against the US dollar in 2019. The relative stability in the exchange rate can be mainly attributed to the contraction in the trade deficit. The conducive conditions in the domestic foreign exchange market also permitted the Central Bank to purchase foreign exchange on a net basis to build up gross official reserves. An intermittent volatility was witnessed in the domestic foreign exchange market in the aftermath of the Easter Sunday attacks and when domestic and external uncertainties resulted in some outflows of foreign investment from the government securities market.

The external sector is likely to be under significant pressure in 2020. The cessation of almost all domestic economic activities from the latter part of March 2020 due to the spread of the COVID-19 pandemic, including export oriented manufacturing, a complete standstill of the tourism industry with restrictions on global travel, lockdowns in many countries impacting

Table 5.1
Balance of Payments Analytical Presentation

Item	US$ million		Rs. million	
	2018 (a)	2019 (b)	2018 (a)	2019 (b)
Current Account (net)	-2,799	-1,808	-451,975	-320,969
Trade Balance	-10,343	-7,997	-1,673,111	-1,430,232
Exports	11,890	11,940	1,933,533	2,134,796
Imports	22,233	19,937	3,606,644	3,565,028
Services (net)	3,766	2,849	611,233	510,822
Receipts	8,374	7,474	1,358,881	1,337,540
Payments	4,608	4,625	747,648	826,718
Primary Income (net)	-2,385	-2,426	-389,601	-432,250
Receipts	249	252	40,204	44,989
Payments	2,633	2,678	429,805	477,239
Secondary Income (net)	6,163	5,766	999,504	1,030,690
Secondary income: credit	7,023	6,726	1,139,324	1,202,334
Workers' remittances	7,015	6,717	1,138,124	1,200,766
Government transfers	8	9	1,201	1,568
Secondary income: debit	860	960	139,821	171,644
Capital Account (net)	14	23	2,265	4,095
Capital account: credit	42	51	6,702	9,054
Capital account: debit	27	28	4,437	4,959
Current and Capital Account (net)	-2,785	-1,785	-449,710	-316,875
Financial Account (net)	-3,378	-2,432	-548,398	-436,783
Direct Investment: Assets	68	77	11,021	13,830
Direct Investment: Liabilities	1,614	758	260,831	135,538
Portfolio Investment: Assets	...	-	6	-
Debt securities	...	-	6	-
Portfolio Investment: Liabilities	129	2,303	-2,281	406,997
Equity	-4	-15	-3,728	-2,964
Debt securities	134	2,317	1,446	409,960
Financial Derivatives	-	-	-	-
Other Investment: Assets	372	100	64,683	17,823
Currency and deposits	80	-93	14,605	-16,796
Trade credit and advances	177	-4	28,647	-680
Other accounts receivable	116	196	21,430	35,299
Other Investment: Liabilities	1,073	-114	184,204	-18,653
Currency and deposits	-632	167	-107,198	31,079
Loans	1,620	-277	278,136	-49,269
Central Bank	252	327	39,999	58,277
Deposit-taking corporations	697	-281	120,016	-50,904
General government	557	-97	96,909	-15,917
Other sectors	114	-226	21,212	-40,725
Trade credit and advances	247	-28	36,401	-5,577
Other accounts payable	-162	24	-23,135	5,114
Special Drawing Rights (SDRs)	-	-	-	-
Reserve Assets	-1,002	337	-181,354	55,445
Monetary gold	-103	-14	-16,244	-2,614
Special Drawing Rights	-3	6	-519	1,080
Reserve position in the IMF	-	-	-	-
Other reserve assets	-895	346	-164,592	56,979
Currency and deposits	-1,011	361	-170,196	59,518
Securities	122	-19	6,732	-3,039
Net Errors and Omissions	-593	-647	-98,688	-119,909
Overall Balance (c)	-1,103	377	-4,354	62,296
As a Percentage of GDP				
Trade Balance	-11.7	-9.5		
Goods and Services	-7.4	-6.1		
Current Account	-3.2	-2.2		
Current and Capital Account	-3.1	-2.1		

Source: Central Bank of Sri Lanka

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

Figure 5.1
External Sector Performance

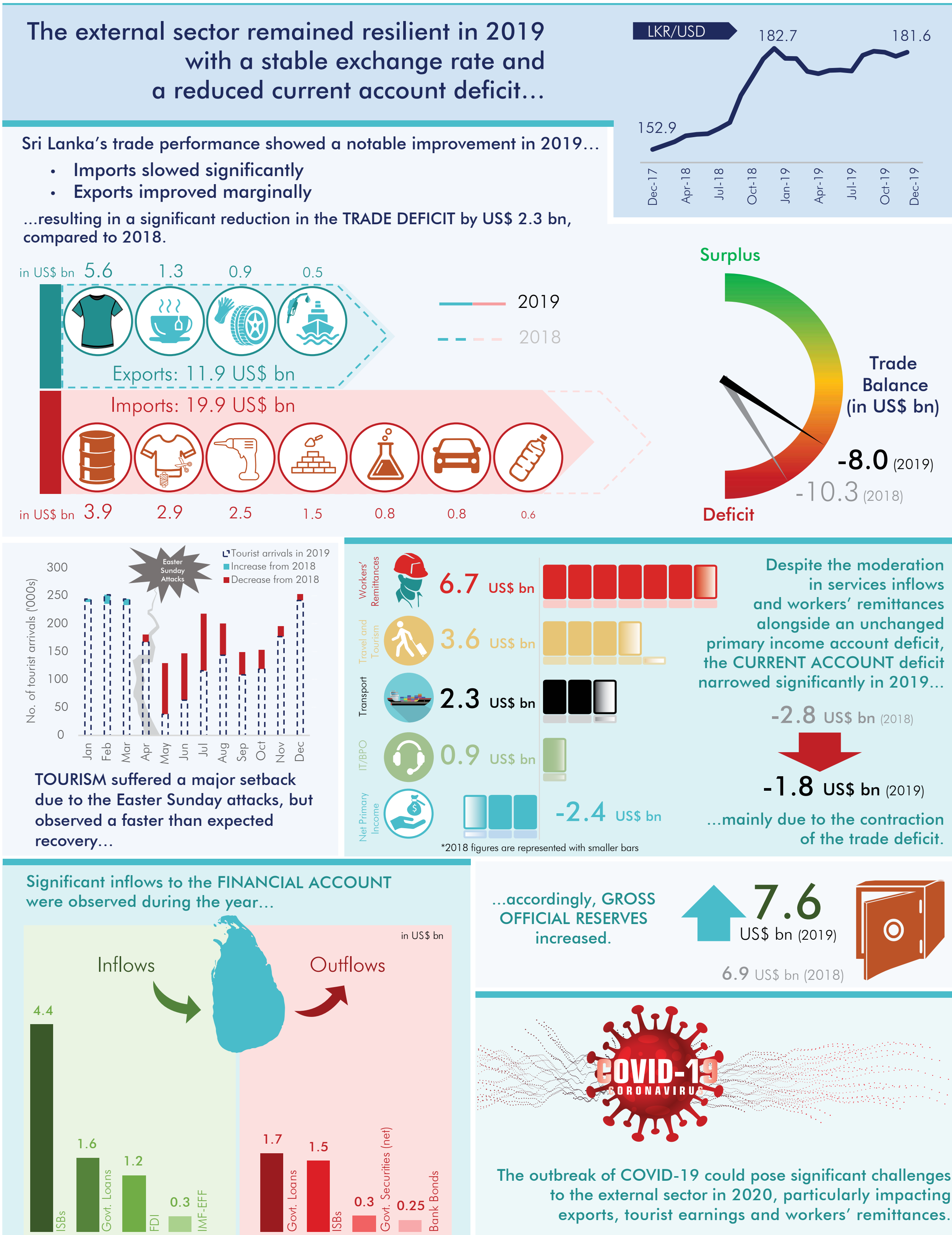

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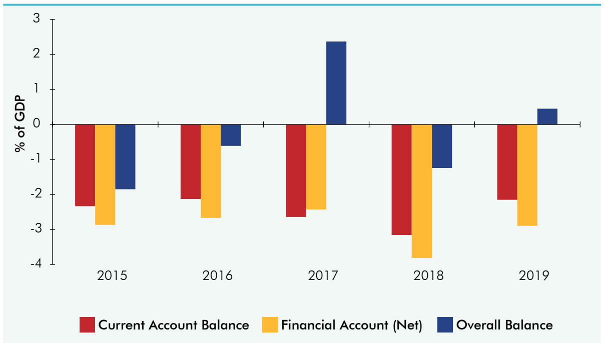
Figure 5.2
Balance of Payments



Source : Central Bank of Sri Lanka

global supply chains and merchandise trade and the flight of capital from emerging markets have already impacted Sri Lanka's external sector in the first quarter of 2020. The significant uncertainty arising from the COVID-19 outbreak also impacted the domestic foreign exchange market, with a sharp depreciation of the Sri Lankan rupee in March 2020. The Central Bank and the government introduced urgent measures to mitigate the pressure on the foreign exchange market, including a temporary suspension of the importation of selected motor vehicles and non-essential consumer goods for three months. Overall, the extent of spread of the COVID-19 both domestically and globally will ascertain the performance of the current account and the financial account of the BOP in 2020, with the possibility of speculative volatilities in the domestic foreign exchange market amidst significant debt servicing challenges. In the medium to long run, maintaining the current account deficit at a sustainable level as well as building external buffers are of utmost importance in order to ensure the long term stability of the external sector. The foreign financing requirement will also increase, if there are spillover effects of running significantly large fiscal deficits. In this context, immediate attention should be given to finance near term external debt obligations through some bridging financing, as emerging and developing market economies' access to global capital markets will remain restrictive due to the pandemic. In the medium term, measures to facilitate export oriented manufacturing and services are needed to attract non-debt creating foreign exchange earnings.

5.2 External Trade Policies, Developments and Institutional Support

The government continued to focus on greater trade integration and enhancement of institutional support for trade facilitation and export promotion during 2019. Although discussions on improvements to regional trade agreements continued, bilateral negotiations on proposed comprehensive free trade/ partnership agreements with China, India and Thailand were not held during 2019. In addition, in 2019, a review process was carried out on the Sri Lanka - Singapore Free Trade Agreement (SLSFTA), that came into force in May 2018. Measures were taken to mitigate potential negative effects that can emerge with trade liberalisation, including a Trade Adjustment Programme (TAP), mainly through the market access programme and operationalisation of the Anti-Dumping and Countervailing Duties Act, No.2 of 2018 and Safeguard Measures Act No. 3 of 2018. Further, the Export Development Board (EDB) continued the implementation of the National Export Strategy (NES) 2018-2022. As per the requirements of the Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO), progress related to the National Single Window (NSW) continued during the period under review. Reflecting the impact of such measures, Sri Lanka's rank in the Ease of Doing Business Index in 2020 improved to 99 from 100 in 2019 (111th in 2018), while further improvements are expected with the implementation of supportive policy reforms in the period ahead.

Table 5.2
Exports under Preferential Trade Agreements of Sri Lanka

Preferential Agreement	2018	2019 (a)		
	Value (US$ million)	Value (US$ million)	Growth (%)	Share (%)
Generalised System of Preferences (GSP)	3,927.7	4,077.9	3.8	82.5
o/w EU (including GSP+) (b)	2,665.3	2,766.3	3.8	56.0
USA	708.0	709.4	0.2	14.3
Russian Federation (c)	166.6	150.3	-9.8	3.0
Australia	79.5	89.7	12.9	1.8
Turkey	79.5	85.3	7.3	1.7
Japan	92.7	84.9	-8.4	1.7
Canada	71.6	73.5	2.6	1.5
India-Sri Lanka Free Trade Agreement (ISLFTA) Implemented in 2000	483.5	489.6	1.3	9.9
Asia-Pacific Trade Agreement (APTA) implemented in 2006 (d)	157.0	179.3	14.2	3.6
Global System of Trade Preferences (GSTP) Implemented in 1989	92.6	80.7	-12.8	1.6
Pakistan-Sri Lanka Free Trade Agreement (PSFTA) Implemented in 2005	51.0	60.8	19.1	1.2
South Asian Free Trade Area (SAFTA) Implemented in 2006	35.4	55.9	57.9	1.1
SAARC Preferential Trading Arrangement (SAPTA) Implemented in 1995	3.5	1.7	-50.1	...
Total Exports under Preferential Agreements	**4,750.7**	**4,945.8**	**4.1**	**100.0**
As a share of Sri Lanka's Total Merchandise Exports	**40.0**	**41.4**		

(a) Provisional
(b) The EU-GSP provides preferential access for 66 per cent of the tariff lines on imported goods to the EU, while the EU-GSP+ provides zero duty access to the same tariff lines on imported goods to the EU.
(c) Includes Russia, Belarus and Kazakhstan
(d) Earlier known as the Bangkok Agreement (1975)

Sources: Sri Lanka Customs
Department of Commerce

Sri Lanka continued to benefit from the Generalised System of Preference (GSP) arrangements in 2019. Among the GSP facilities received by Sri Lanka, the facility offered by the EU and the USA contributed to more than two thirds of total preferential exports of Sri Lanka. Since the reinstatement of the EU GSP+ scheme in May 2017, some growth in exports to the EU was observed. Sri Lanka was able to gain this benefit due to the removal of duties on 66 per cent of total tariff lines of the EU under the EU GSP+ scheme. Garments, rubber products, tea, seafood, food, beverages and tobacco, and machinery and mechanical appliances were the main categories exported under this scheme in 2019. However, having reached the 'upper middle-income' status as classified by the World Bank in 2019, eligibility for the GSP+ and the standard GSP scheme of the EU could lapse by 2023. Meanwhile, the apparel sector, the main beneficiary of the EU GSP+ scheme, continued to struggle to meet the country of origin requirements to qualify for preferential access through this scheme, hindering the growth of apparel exports. In this regard, the government made several requests from the EU in collaboration with the governments of Indonesia and South Korea in 2018, seeking permission to use material sourced from these countries eligible to be used by Sri Lankan apparel sector under the cumulation rule of the EU GSP+, and these requests are currently being considered by the EU. Meanwhile, exports under the US GSP scheme, which accounted for 14.3 per cent of total exports under preferential agreements, increased marginally in 2019. Garments, rubber products, food, beverages and tobacco, tea and chemical products were the main export categories under the US GSP scheme in 2019. The current US GSP scheme will be effective until the end of 2020 and is expected to be re-authorised as per the general practice of the US government. In addition, Sri Lanka continued to benefit from GSP schemes offered by several other countries such as the Russian Federation, Japan, Australia, Turkey, Canada and Switzerland, although, their contribution to exports remained relatively low. Meanwhile, export earnings of Sri Lanka under the Global System of Trade Preferences (GSTP) Agreement, which mainly exported cinnamon to Mexico and Peru, declined in 2019. The narrow export base and low product penetration are obstacles to Sri Lanka's ability to entirely exploit the benefit from most GSP schemes.

Further rounds of negotiations in relation to new trade agreements stalled in 2019, although discussions on bilateral trade improvements progressed. Sri Lanka had completed several rounds of negotiations on three comprehensive free trade/ partnership agreements with China, India (Economic and Technology Cooperation Agreement - ETCA) and Thailand by the beginning of 2019. The official bilateral negotiation rounds were not held during 2019 for these new free trade/ partnership agreements, amidst political tensions. Although discussions were held at the political level with the Chinese government on the recommencement of the negotiations of the China - Sri Lanka Free Trade Agreement (CSFTA), official negotiation rounds failed to resume after the sixth round held in March 2017. Meanwhile, negotiations on the proposed ETCA between India and Sri Lanka completed 11 rounds by September 2018. Accordingly, negotiations on two chapters, 'Customs Procedure' and 'Trade Facilitation and Trade Remedies', were completed successfully and the draft chapters have been sent to the respective Ministries for finalisation. Negotiations on the Sri Lanka - Thailand FTA (SLTFTA), which commenced in July 2018, did not resume after the second round of negotiations held in September 2018. With the expectation of improving trade in services, investment and business opportunities through global value chain (GVC) operations with Singapore, Sri Lanka signed its first comprehensive bilateral FTA in January 2018, which came into force in May 2018. However, amidst concerns raised by several stakeholders over the SLSFTA, a Committee of Experts was appointed in August 2018, to further analyse the FTA. Accordingly, the committee submitted its report in November 2018. Subsequently, a five-member Cabinet subcommittee was appointed, which prepared its initial report specifying the areas that need to be revised in SLSFTA as well as pending concerns that need to be further discussed with relevant domestic institutions. Meanwhile, initial studies and discussions on several potential FTAs with Malaysia, Indonesia and Bangladesh continued during 2019. Other than bilateral FTAs, several discussions on economic cooperation were carried out with Hungary, Australia, Germany and New Zealand, while joint committees and commissions with the EU, Thailand, Kuwait, Vietnam were held during 2019. Since December 2019, duties and functions on multilateral, bilateral and economic conventions have been assigned to the Ministry of Finance, Economic and Policy Development. Accordingly, after reviewing the overall macroeconomic policy of the country, including its existing FTAs and those under negotiations, future undertakings will be taken by the Ministry of Finance, Economic and Policy Development.

Measures were taken to further enhance the utilisation of existing bilateral trade agreements, considering relatively low trade volumes under these FTAs. The India - Sri Lanka Free Trade Agreement (ISLFTA) had been the most beneficial bilateral FTA for Sri Lanka. Under this, exports of Sri Lanka improved marginally to US dollars 490 million in 2019 in comparison to US dollars 484 million in 2018. Approximately, 64 per cent of Sri Lanka’s exports to India, which is led by animal feed, spices, garments and base metals and articles were channelled through the FTA, compared to around 5 per cent of imports amounting to US dollars 199 million from India under the FTA. Further measures were taken to resolve issues related to the implementation of ISLFTA, such as quantitative restrictions on apparel and black pepper, procedures on customs clearance and sample testing, excessive documentation charges and delays. ETCA could take over ISLFTA when negotiations are finalised. Meanwhile, exports under the Pakistan - Sri Lanka Free Trade Agreement (PSFTA) increased by 19.1 per cent to US dollars 61 million during 2019. Major products exported by Sri Lanka under the PSFTA included betel leaves, coconut kernel products and medium-density fibre (MDF) boards. Despite the low trade volumes, exports through the PSFTA remained high at around 74 per cent, while imports through the PSFTA were low at around 6 per cent amounting to US dollars 24 million. Lack of product diversification, ad hoc policy changes and non-tariff barriers such as procedural delays hindered the trade volumes under this Agreement. Nevertheless, it is evident that with regard to ISLFTA and PSFTA, Sri Lanka has maintained a favourable trade balance in 2019. Meanwhile, the 13th joint council meeting under the USA - Sri Lanka Trade and Investment Framework Agreement (TIFA) was held in Colombo in June 2019. Following the detailed deliberations, the US counterparts expressed willingness to offer their cooperation in providing technical assistance for capacity building and skill development in several areas, including improvement of Sri Lanka's ranking in the 'Ease of Doing Business Index'.

Engagement with regional preferential trade agreements needs to be further strengthened given the importance of enhancing cooperation among regional trade and services networks. The Agreement on the South Asian Free Trade Area (SAFTA), signed in 2006, is expected to replace the SAARC Preferential Trading Arrangement (SAPTA). This resulted a reduction in the utilisation of SAPTA, while exports through SAFTA improved during 2019. Exports to India dominated with over 83 per cent of export earnings of Sri Lanka under SAFTA being driven by desiccated coconuts and pepper. The first and second phases of the tariff liberalisation programme (TLP) of SAFTA were completed by Sri Lanka in 2015 and 2018, respectively, and during 2019, stakeholder consultations were held to identify tariff lines to implement the tariff reduction commitment under the third phase. Exports under the Asia - Pacific Trade Agreement (APTA) increased in 2019, led by tea, garments and coconut related products exported mainly to China. Sri Lanka implemented the fourth round of concessions in March 2018 and the participating states are now engaged in formulating the modalities and terms of references (TORs) for the fifth round of APTA negotiations. Meanwhile, several discussions on the proposed FTA of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC-FTA) were held in 2019. The draft TLP of Sri Lanka was prepared by the Department of Commerce and circulated among stakeholders for their observations.

Sri Lanka's multilateral trade engagements with the WTO continued along with the implementation of the WTO's Trade Facilitation Agreement (TFA). During 2019, Sri Lanka actively engaged with the WTO disciplines relevant to fisheries subsidies, agriculture, e-commerce and electronic transfers, domestic regulations and reforms to modernise the WTO. Since the TFA came into effect in February 2017, Sri Lanka notified its commitments to the WTO as specified under the categories "A", "B" and "C". Several stakeholder consultations and awareness sessions were held in 2019 to improve the utilisation of the Trade Information Portal (TIP), which was launched in July 2018, in fulfilment of Sri Lanka's commitments under TFA. Meanwhile, designing the National Single Window (NSW) for Sri Lanka Customs (SLC) was in progress and its blueprint was handed over to the Ministry of Finance and to SLC by the World Bank in July 2019.

Initiatives were taken by the government to streamline the institutional capacity with a view to facilitating external trade. The Trade Adjustment Programme (TAP), a major outcome of the New Trade Policy (NTP) was introduced in 2017 to support the smooth transition of firms and workers to liberalised trade conditions. The Cabinet of Ministers approved the establishment of the Trade and Productivity Commission (TPC) and a Joint Steering Committee in March 2019 to implement the TAP in a productive manner. Initiatives were taken to draft a bill to empower the TPC, which is set to play a crucial role in the trade liberalisation process by bridging the gap between industries and the government. Meanwhile, operationalising of the NES 2018-2022, which was launched in July 2018, continued during 2019. Accordingly, a NES Management Unit consisting of several advisory committees with representation from the private and public sectors was established under the Ministry of Industrial Exports and Investment Promotion (MIEIP) (formerly Ministry of Development Strategies and International Trade) and the EDB to coordinate, monitor and report on the implementation of the plan of actions of the NES. By the end of 2019, the NES had made considerable progress across all of its focus sectors and trade supporting functions. Meanwhile, the EDB, continued initiatives, such as the market access support scheme, IT initiative, multinational corporation outreach programme for the electrical and electronic components sector, establishment of infrastructure facilities and establishment of an EDB owned trade promotion platform (eMARKETPLACE). Further enhancements were undertaken to national programmes to transform 2,000 regional small and medium enterprises (SMEs) as new export champions, promotion of women entrepreneurs, the "One Village One Product" concept and creation of direct and indirect exporters in the identified regions. The selected exporters benefitted from awareness programmes, domestic and foreign trade fair visits and technical assistance. Under the market access support programme, which was designed to support enterprises to expand their market access through value addition and improved productivity, about 100 proposals were selected by the EDB by the end of 2019. In addition, the EDB took several measures including qualifying the Geographical Indication (GI) sign for "Ceylon Cinnamon" to further develop cinnamon exports. The Trade Chambers also contributed towards export promotion, which helped link the public and private sector stakeholders in policymaking and grievance handling. Meanwhile, SLC streamlined its activities further in line with the implementation of the TFA of the WTO during 2019. Accordingly, a system based post clearance audit was implemented, which allows SLC to further simplify customs procedures, minimise cost of facilitation while maintaining internal controls. Further, SLC took measures to prevent garbage, scrap and waste entering Sri Lankan borders. Meanwhile, the import cargo clearance was fully automated in July 2019.

Measures were taken by the government to implement trade related proposals of the Budget 2019, while restricting the importation of selected items to protect domestic farmers and industries. The Budget 2019 proposed to continue phasing out para-tariffs on selected items over a period of five years. In addition, further funds were allocated for the ongoing trade reform programmes such as the TAP, NES, Export Market Access Programme and further development of the industrial zones proposed in Bingiriya and Wagawatte. In December 2019, directions were issued to restrict the importation of selected items as a measure of protecting domestic farmers and industries. Accordingly, the importation of spices such as pepper, mustard, tamarind, cinnamon, nutmeg, mace, cardamom, ginger and cloves with the purpose of direct re-export or re-export after minor preparation was restricted. Further, the importation of Vesak lanterns, kites and incense sticks was restricted mainly due to the impact on domestic industries. The importation of waste items for reshipping or re-export as well as the importation of ethanol for liquor production was also suspended. In addition, the government and the Central Bank undertook urgent measures to mitigate the pressure on the external sector that arose due to the COVID-19 outbreak, including a suspension on facilitating the importation of selected motor vehicles and non essential consumer goods in March 2020, initially for a period of three months.

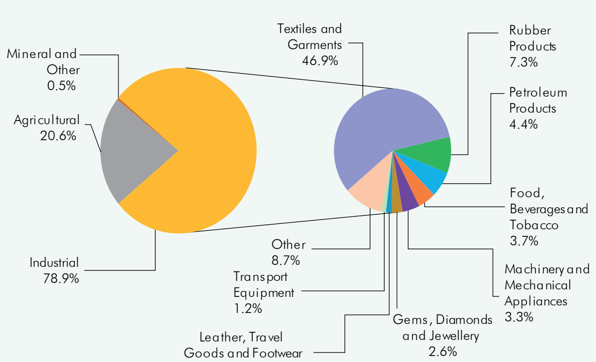
Domestic and global impediments would continue to challenge Sri Lanka's trade performance, while policy consistency, extended institutional support and macroeconomic stability would be required for improving trade performance in the period ahead. Although several domestic and international challenges arose during 2019, a significant improvement was observed in the trade deficit mainly resulting from lower import expenditure derived by policy measures introduced to curtail excessive imports of consumer goods of a non-essential nature. Protectionism measures taken by major players of global trade, the Brexit, Sri Lanka losing EU GSP/GSP+ towards 2023 due to the graduation to upper-middle income status and the recent outbreak of the Covid-19 disrupting demand and supply networks would be the key challenges in the period ahead. The ongoing trade disputes between major players of the global trade arena are not expected to impact Sri Lanka's trade performance in a significant way, although the possible slowdown in global trade and growth could have a spillover effect on Sri Lanka's trade performance. Trade related developments of regional peers such as the withdrawal of the US GSP facility from India and Vietnam's new FTA with the EU could also have an impact on the performance of Sri Lankan exports. Further strengthening of existing trade relations while establishing affiliations with new trading partners, conducive and consistent external trade policies, institutional support through capacity development, careful liberalisation of trade together with a broadly stable macroeconomic environment are expected to drive the growth momentum in exports. The opportunities, challenges and remedial measures to be taken on external trade have been widely accepted by almost all stakeholders. Priority should be given to removing supply side constraints such as high production costs and lack of required labour, creation of an export culture supported by Research and Development (R&D) led innovation to harness potential global value chains and product networks, improving value addition, the rationalisation of the institutional framework, removing bureaucratic bottlenecks and creating a trade and investor friendly environment. Further, Sri Lanka must move further towards sustainable production concepts such as organic produce, green production and fair trade practices, where such practices are highly valued by consumers around the world. Accordingly, the timely implementation of identified strategies is imperative while continuing the dialogue with stakeholders for new strategies. Special attention should be paid to resolve the risks attached to Sri Lanka's graduation into an upper middle income country, through advanced planning.

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

5.3.1 Export Performance

Earnings from merchandise exports continued its growth in 2019, albeit marginally, amidst heightened domestic and external vulnerabilities. Earnings from merchandise exports increased at a higher rate during the first half of the year, but decelerated thereafter, limiting the year-on-year export growth to 0.4 per cent. Accordingly, earnings from merchandise exports recorded US dollars 11,940 million in 2019 in comparison to US dollars 11,890 million in 2018.

Figure 5.3
Composition of Exports - 2019



Sources : Sri Lanka Customs
Central Bank of Sri Lanka

Earnings from industrial exports contributed to the increase in export earnings, while earnings from agricultural and mineral exports declined.

Earnings from industrial exports, which accounted for around 79 per cent of total export earnings, increased in 2019, predominantly supported by the growth in exports of textiles and garments. Accordingly, industrial exports increased by 1.8 per cent to US dollars 9,426 million in 2019 from US dollars 9,258 million in 2018. Being the largest contributor to exports, earnings from textiles and garments increased by 5.2 per cent to US dollars 5,596 million in 2019. Earnings from garment exports to the USA in 2019 increased by 3.0 per cent to US dollars 2,338 million. Garment exports to the EU also showed an increase of 4.9 per cent to US dollars 2,153 million, benefitting from the restoration of GSP+ facility, while the UK, being the largest single buyer within the EU, accounted for US dollars 747 million. In addition, Italy, Germany, Belgium and the Netherlands in the EU as well as Canada, Australia, China, India and Japan, were among the largest buyers of Sri Lankan garments in 2019. Earnings from textiles and made up textile articles also increased in 2019 due to increased demand from India, the UK, the USA, Germany and Pakistan. Meanwhile, export earnings from gems, diamonds and jewellery grew by 10.0 per cent to US dollars 306 million in 2019, recovering from the low amount of export earnings recorded in 2018. Earnings from transport equipment increased by 21.3 per cent to US dollars 146 million, with a significant increase in export earnings from ships, boats and floating structures, reflecting mainly the supply of a naval craft to Japan. Earnings from chemical products exports also increased by 5.7 per cent, driven by exports of activated carbon. Further, export earnings from base metals and articles increased by 6.7 per cent, mainly due to the increase in export earnings from iron and steel and articles. Earnings from animal fodder increased, driven by exports of residues from food industries, while earnings from printing industry products increased with exports of currency notes. In contrast, earnings from petroleum products exports, which mainly comprise bunker and aviation fuel, declined by 16.2 per cent to US dollars 521 million in 2019. Lower export volumes driven by the high competition between bunkering ports in the region and cancellation of several flights following the Easter Sunday attacks as well as lower prices caused the decline in export earnings from bunker and aviation fuel. Exports of other petroleum products, including lubricants and petroleum bitumen, also declined in 2019. Despite the increase in earnings from rubber glove exports, earnings from rubber product exports declined by 1.1 per cent to US dollars 866 million during 2019, driven by lower tyre exports. Earnings from machinery and mechanical appliances exports declined by 8.0 per cent to US dollars 400 million due to low export earnings from most sub categories, despite higher export earnings from machinery and equipment parts. In addition, earnings from food, beverages and tobacco exports declined, led by lower manufactured tobacco exports, while all exports of sub sectors under leather, travel goods and footwear also declined during 2019.

Table 5.3
Composition of Exports

Category	2018		2019(a)		Change in Value US$ million	Y-o-Y Change %	Contribution to Change %
	Value US$ million	Share %	Value US$ million	Share %			
Agricultural Exports	**2,579.3**	**21.7**	**2,461.9**	**20.6**	**-117.4**	**-4.6**	**-233.1**
Tea	1,428.5	12.0	1,346.4	11.3	-82.1	-5.7	-162.9
Rubber	31.6	0.3	24.2	0.2	-7.4	-23.4	-14.7
Coconut	311.0	2.6	329.5	2.8	18.5	6.0	36.7
Spices	360.2	3.0	312.5	2.6	-47.7	-13.2	-94.6
Vegetables	28.2	0.2	32.0	0.3	3.8	13.3	7.5
Unmanufactured Tobacco	35.6	0.3	34.7	0.3	-0.8	-2.4	-1.7
Minor Agricultural Products	118.4	1.0	120.0	1.0	1.7	1.4	3.4
Seafood	265.8	2.2	262.5	2.2	-3.4	-1.3	-6.7
Industrial Exports	**9,258.2**	**77.9**	**9,426.3**	**78.9**	**168.2**	**1.8**	**333.8**
Textiles and Garments	5,317.7	44.7	5,596.5	46.9	278.8	5.2	553.4
Rubber Products	875.3	7.4	866.1	7.3	-9.2	-1.1	-18.3
Petroleum Products	622.1	5.2	521.1	4.4	-101.0	-16.2	-200.5
Gems, Diamonds and Jewellery	278.0	2.3	305.7	2.6	27.7	10.0	55.1
Food, Beverages and Tobacco	462.3	3.9	447.0	3.7	-15.3	-3.3	-30.4
Machinery and Mechanical Appliances	434.8	3.7	400.0	3.3	-34.8	-8.0	-69.1
Printing Industry Products	31.7	0.3	48.3	0.4	16.6	52.4	33.0
Transport Equipment	120.3	1.0	145.9	1.2	25.6	21.3	50.9
Leather, Travel Goods and Footwear	147.7	1.2	102.9	0.9	-44.8	-30.3	-88.9
Ceramic Products	31.3	0.3	30.1	0.3	-1.2	-3.9	-2.4
Other Industrial Exports	937.1	7.9	962.8	8.1	25.7	2.7	51.1
Mineral Exports	**34.4**	**0.3**	**33.9**	**0.3**	**-0.5**	**-1.4**	**-0.9**
Unclassified Exports	**17.8**	**0.1**	**17.9**	**0.2**	**0.1**	**0.6**	**0.2**
Total Exports (b) (c)	**11,889.6**	**100.0**	**11,940.0**	**100.0**	**50.4**	**0.4**	**100.0**
Annual Average Exchange Rate (d)	**162.54**		**178.78**				

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

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

Performance of agricultural exports, which accounted for around 21 per cent of total exports, deteriorated further in 2019. Earnings from agricultural exports declined by 4.6 per cent to US dollars 2,462 million in 2019 in comparison to 2018, driven by lower earnings from tea and spice exports. Earnings from tea exports, the second largest contributor to the total export earnings of Sri Lanka, accounting for 11.3 per cent, declined by 5.7 per cent to US dollars 1,346 million in 2019. However, the volume of tea exported increased by 3.6 per cent to 293 million kilograms in 2019 from 282 million kilograms in 2018, indicating that the decline in earnings from tea exports was entirely driven by lower average export prices. The average tea export price in 2019 declined by 9.1 per cent to US dollars 4.60 per kg from US dollars 5.06 per kg in 2018, although the average auction prices were relatively high at the Colombo tea auction compared to the Kolkata (India) and Mombasa (Kenya) auctions. Turkey continued to secure the number one importer position for Sri Lankan tea, both in terms of value and volume. As in the previous year, Russia, Iraq, Iran and Syria remained the other major tea export destinations in value terms, altogether accounting for 42 per cent of total tea export earnings in 2019. Earnings from spice exports declined by 13.2 per cent to US dollars 313 million in 2019, mainly due to lower export volumes of cinnamon and pepper, despite the increase in earnings from cloves, nutmeg and mace with higher domestic supply. Earnings from seafood exports declined by 1.3 per cent in 2019, mainly due to the significant decline in demand from the US market, despite increased demand from the EU market. In addition, earnings from natural rubber exports declined considerably, led by lower crepe rubber exports, while earnings from unmanufactured tobacco exports declined marginally in 2019. In contrast, earnings from coconut exports increased by 6.0 per cent to US dollars 330 million, due to higher export volume of coconut kernel products, led by desiccated coconuts, and non-kernel exports such as coconut fibre, despite lower prices. In addition, earnings from fresh vegetables and minor agricultural products such as papaw, mangoes, areca nuts and betel leaves exports increased in 2019 in comparison to the previous year.

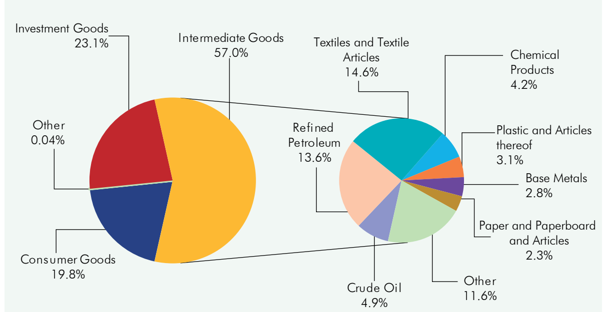
Earnings from mineral exports declined by 1.4 per cent to US dollars 34 million in 2019. Despite the increase in earnings from ores, slag and ash, led by the export of titanium ores, the decline in earnings from earths and stone exports led to the overall subdued performance in mineral exports.

5.3.2 Import Performance

Following the policy measures implemented by the government and the Central Bank to dampen non-essential imports during the latter part of 2018, the expenditure on merchandise imports declined considerably in 2019, reversing the growth trend observed in the preceding three years. Accordingly, expenditure on imports declined by 10.3 per cent to US dollars 19,937 million in 2019 from US dollars 22,233 million in 2018. Lower expenditure on consumer goods and intermediate goods mainly contributed to the decline in imports in 2019, while expenditure on investment goods also declined marginally. Meanwhile, import expenditure, excluding fuel imports, declined by 11.3 per cent to US dollars 16,045 million in 2019.

Import expenditure on intermediate goods, which accounted for 57 per cent of total imports, declined by 9.0 per cent to US dollars 11,370 million in 2019 in comparison to the previous year. Expenditure on fuel imports declined by 6.3 per cent to US dollars 3,892 million in 2019 due to the drop in import prices of all subsectors; crude oil, refined petroleum and coal as well as the import volume of refined petroleum. In line with the reduction in oil prices in the international market, the average crude oil import price declined to US dollars 68.80 per barrel in 2019 from US dollars 76.25 per barrel in 2018. Expenditure on diamonds, precious stones and metals imports exhibited a considerable decline due to the reduction in gold imports during 2019, following the imposition of customs duty of 15 per cent on gold imports in April 2018. Import expenditure on base metals declined by 17.6 per cent in 2019, driven by lower iron and steel imports. Expenditure on wheat imports declined due to lower import volumes, despite the growth in average wheat import prices, while expenditure on fertiliser imports declined, led by lower import volumes of Urea. Most other sub categories of intermediate

Figure 5.4
Composition of Imports - 2019



Sources : Sri Lanka Customs
Central Bank of Sri Lanka

goods imports, including plastic and articles thereof, chemical products, paper and paperboard and articles thereof, food preparations, rubber and articles thereof, and vehicle and machinery parts, also showed a declining trend. However, expenditure on textiles and textile articles, driven by fibre and fabrics imports, increased in 2019, in line with the increased exports of textiles and garments. In addition, expenditure on mineral products imports increased, led by the substantial increase in cement clinker during 2019 compared to the previous year.

Expenditure on consumer goods imports, which accounted for about 20 per cent of total imports, declined substantially with the decline in expenditure on both food and beverages and non-food consumer goods. Accordingly, expenditure on consumer goods imports declined by 20.5 per cent to US dollars 3,957 million in 2019 compared to US dollars 4,980 million in 2018. Import expenditure on food and beverages declined by 11.2 per cent, as a result of lower imports of main food categories except seafood, vegetables and spices. Expenditure on rice imports, which is categorised under cereals and milling industry products, declined significantly due to lower import volume in 2019 compared to 2018. Accordingly, the volume of rice imports declined to 24 million kilograms in 2019 from 249 million kilograms in 2018, led by an improved domestic paddy harvest in 2019. The

Table 5.4
Composition of Imports

Category	2018		2019 (a)		Change in Value US$ million	Y-o-Y Change %	Contribution to Change %
	Value US$ million	Share %	Value US$ million	Share %			
Consumer Goods	**4,979.7**	**22.4**	**3,956.5**	**19.8**	**-1,023.2**	**-20.5**	**44.6**
Food and Beverages	1,606.1	7.2	1,426.9	7.2	-179.1	-11.2	7.8
Rice	106.8	0.5	12.8	0.1	-94.0	-88.0	4.1
Sugar and Confectionery	249.7	1.1	201.2	1.0	-48.5	-19.4	2.1
Dairy Products	332.3	1.5	311.9	1.6	-20.4	-6.1	0.9
Lentils	78.6	0.4	79.9	0.4	1.3	1.6	-0.1
Other	838.7	3.8	821.2	4.1	-17.5	-2.1	0.8
Non-Food Consumer Goods	3,373.6	15.2	2,529.6	12.7	-844.0	-25.0	36.8
Personal Vehicles	1,573.5	7.1	815.7	4.1	-757.9	-48.2	33.0
Medical and Pharmaceuticals	532.0	2.4	552.6	2.8	20.7	3.9	-0.9
Home Appliances	232.2	1.0	206.6	1.0	-25.6	-11.0	1.1
Clothing and Accessories	310.3	1.4	275.1	1.4	-35.1	-11.3	1.5
Other	725.6	3.3	679.6	3.4	-46.1	-6.3	2.0
Intermediate Goods	**12,488.0**	**56.2**	**11,369.6**	**57.0**	**-1,118.4**	**-9.0**	**48.7**
Fuel	4,151.9	18.7	3,891.6	19.5	-260.3	-6.3	11.3
Textiles and Textile Articles	2,858.5	12.9	2,909.4	14.6	50.9	1.8	-2.2
Diamonds, Precious Stones and Metals	572.7	2.6	201.4	1.0	-371.3	-64.8	16.2
Chemical Products	904.2	4.1	831.5	4.2	-72.8	-8.0	3.2
Wheat and Maize	373.5	1.7	346.4	1.7	-27.1	-7.3	1.2
Fertiliser	261.6	1.2	221.4	1.1	-40.2	-15.4	1.7
Other Intermediate Goods	3,365.6	15.1	2,967.9	14.9	-397.7	-11.8	17.3
Investment Goods	**4,690.4**	**21.1**	**4,602.6**	**23.1**	**-87.7**	**-1.9**	**3.8**
Building Materials	1,524.5	6.9	1,508.7	7.6	-15.8	-1.0	0.7
Transport Equipment	668.1	3.0	596.6	3.0	-71.6	-10.7	3.1
Machinery and Equipment	2,491.6	11.2	2,489.7	12.5	-1.9	-0.1	0.1
Other Investment Goods	6.1	0.03	7.6	0.04	1.5	25.5	-0.1
Unclassified Imports	**74.6**	**0.3**	**8.3**	**0.04**	**-66.4**	**-88.9**	**2.9**
Total Imports (b)(c)	**22,232.7**	**100.0**	**19,937.1**	**100.0**	**-2,295.6**	**-10.3**	**100.0**
Annual Average Exchange Rate (d)	**162.54**		**178.78**				

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

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

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considerable decline in import volumes of sugar and average import prices led the expenditure on sugar and confectionery imports to decline by 19.4 per cent in 2019. Further, expenditure on dairy products declined by 6.1 per cent in 2019, led by lower import volumes of milk powder, despite a marginal increase in average import prices of milk powder. In addition, expenditure on imports of oils and fats led by coconut oil, fruits, led by processed fruits, and beverages led by alcoholic beverages imports also declined in 2019 when compared to 2018. However, expenditure on seafood imports increased by 8.8 per cent to US dollars 215 million in 2019, led by increased imports of canned fish. In addition, expenditure on vegetable imports increased with increased expenditure on garlic, masoor dhal, big onion and potatoes, while expenditure on spices increased moderately, as a result of higher import prices of chillies in 2019.

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The decline in the expenditure on non-food consumer goods imports was mainly due to the considerable decline in the expenditure on personal vehicle imports. Expenditure on personal vehicle imports declined significantly by 48.2 per cent to US dollars 816 million from the record high level of US dollars 1,574 million in 2018, reflecting the impact of policy measures implemented during the latter part of 2018 to discourage imports of personal motor vehicles. Responding to policy measures, the importation of personal vehicles has decelerated since December 2018. During the first half of 2019 expenditure on personal vehicle imports declined by 60.1 per cent to US dollars 324 million compared to the corresponding period of 2018. However, in the Budget 2019 presented in March 2019, excise duties on selected personal motor vehicle categories were further increased, creating some space for selective relaxation of the macroprudential measures taken to curtail excessive vehicle imports in 2018. Accordingly, restrictions such as the margin deposit requirement and the suspension of importing vehicles under letters of credit (LCs), using concessionary permits were removed during March / April 2019. As a result, import expenditure on personal motor vehicles picked up during the second half of 2019 to US dollars 491 million, driven by the resumption of vehicle importation under concessionary permits. Restrictions imposed on selected non-essential consumer goods, such as the margin requirement and restriction on foreign currency release for the importation of such goods, were also removed

Table 5.5
Volume of Major Imports

MT '000

Item	2015	2016	2017	2018	2019 (a)
Rice	**286**	**30**	**748**	**249**	**24**
1st Quarter	176	6	259	203	8
2nd Quarter	91	9	79	37	3
3rd Quarter	9	6	160	2	5
4th Quarter	9	8	250	7	8
Wheat	**1,208**	**948**	**1,250**	**1,297**	**1,159**
1st Quarter	242	171	291	412	164
2nd Quarter	342	326	334	329	318
3rd Quarter	373	271	359	285	292
4th Quarter	251	179	265	271	385
Sugar	**624**	**651**	**498**	**645**	**556**
1st Quarter	169	147	108	205	140
2nd Quarter	161	144	158	166	153
3rd Quarter	156	179	101	119	100
4th Quarter	137	181	132	154	164
Crude Oil (b)	**1,763**	**1,685**	**1,591**	**1,674**	**1,842**
1st Quarter	369	372	282	283	461
2nd Quarter	355	456	376	459	460
3rd Quarter	472	384	464	461	461
4th Quarter	567	473	469	471	460
Refined Petroleum (b)	**3,321**	**3,885**	**4,895**	**4,959**	**4,740**
1st Quarter	799	830	1,275	1,382	1,199
2nd Quarter	952	1,163	1,123	1,207	1,206
3rd Quarter	744	749	1,336	1,317	1,211
4th Quarter	826	1,142	1,161	1,054	1,124
Fertiliser	**873**	**527**	**399**	**861**	**707**
1st Quarter	163	139	78	256	148
2nd Quarter	244	135	73	154	142
3rd Quarter	189	126	129	225	238
4th Quarter	277	127	119	226	179

(a) Provisional
(b) Adjusted

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

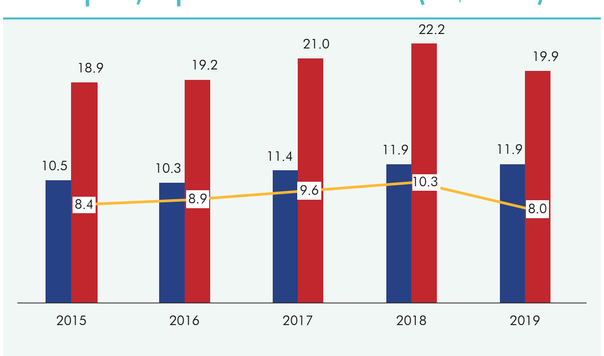
in March 2019. However, contractions were recorded in the expenditure on importation of clothing and accessories (11.3 per cent), home appliances (11.0 per cent), telecommunication devices (9.3 per cent), rubber products (12.9 per cent) and cosmetic and toiletries (8.4 per cent) in 2019 in comparison to 2018. In contrast, import expenditure on medical and pharmaceuticals, led by medicaments, and expenditure on household and furniture, led by plastic kitchenware imports, increased in 2019 in comparison to the previous year. However, in order to ease the pressure on the exchange rate and prevent financial market panic due to the COVID-19 pandemic, the government and the Central Bank undertook urgent measures, including a temporary suspension on facilitating the importation of motor vehicles and non essential consumer goods in March 2020. Accordingly, the Central Bank directed licenced commercial banks and the National Savings Bank to suspend facilitating the importation of selected motor vehicles under LCs and the importation of selected non-essential consumer goods under LCs, Documents Against Acceptance and Advanced Payment terms.

Expenditure on investment goods, which accounted for about 23 per cent of total import expenditure, declined marginally with lower expenditure on all major sub categories. Accordingly, expenditure on investment goods imports declined by 1.9 per cent to US dollars 4,603 million in 2019 from US dollars 4,690 million in 2018. Expenditure on machinery and equipment declined marginally by 0.1 per cent to US dollars 2,490 million. This reflected the decline in expenditure on machinery and equipment parts, office machines, telecommunication devices and textile industry machinery imports, offsetting the increase in expenditure on medical and laboratory equipment, electric motors and generating sets and engineering equipment imports. Expenditure on transport equipment imports declined considerably by 10.7 per cent, due to the decline in expenditure on almost all subcategories of commercial vehicles, ships and boats, aircraft and parts of aircraft, although import expenditure on railway engines, carriages and other railway equipment increased substantially in 2019. Despite the significant increase in articles of iron and steel, led by the import of bridge construction material, expenditure on building material imports declined by 1.0 per cent to US dollars 1,509 million in 2019, due to the decline in imports of many items in other sub categories such as iron and steel, cement, plastic, rubber and glassware, wood products, ceramic products, mineral products and insulated wires and cables, reflecting the overall slowdown in economic activities in 2019.

5.3.3 Trade Balance

The deficit in the trade account, which expanded continuously for the previous five years, contracted substantially in 2019. This was due to lower expenditure on imports resulting from policy measures taken to curtail non-essential

Figure 5.5
Exports, Imports and Trade Deficit (US$ billion)



Sources : Sri Lanka Customs
Central Bank of Sri Lanka

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consumer goods during the latter part of 2018 as well as the marginal increase in earnings from exports. Accordingly, the trade deficit contracted considerably by US dollars 2,346 million to US dollars 7,997 million in 2019 compared to US dollars 10,343 million in 2018. This was the lowest deficit since 2013. The trade deficit as a percentage of GDP contracted to 9.5 per cent in 2019 from 11.7 per cent in 2018.

5.3.4 Terms of Trade

The terms of trade, which represent the ratio between Sri Lanka's export prices and import prices, deteriorated in 2019. The export price index declined by 6.3 per cent to 94.1 index points, while the import price index declined by 4.8 per cent to 90.5 index points during the year. As the export price index declined at a higher pace than the decline in the import price index, the terms of trade deteriorated by 1.6 per cent to 103.9 index points in 2019 in comparison to 105.6 index points in 2018.

Reflecting lower prices of all major categories of exports, the overall export price index declined in 2019. The export price index pertaining to industrial exports declined by 5.4 per cent during the year, mainly due to the decline in prices of petroleum products by 14.7 per cent in

Table 5.6
Trade Indices (a)

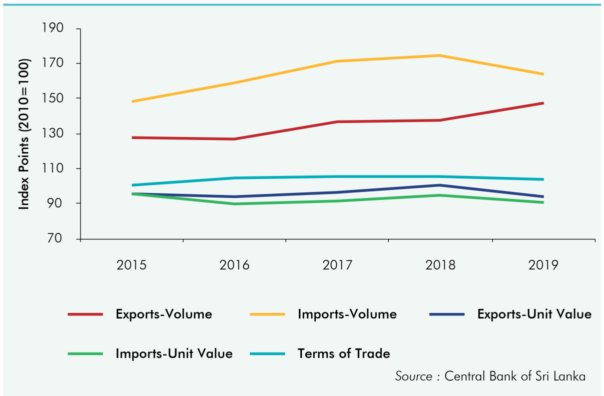
2010 = 100

Category	Value Index			Volume Index			Unit Value Index		
	2018	2019 (b)	Y-o-Y Change %	2018	2019 (b)	Y-o-Y Change %	2018	2019 (b)	Y-o-Y Change %
EXPORTS									
Agricultural Exports	**111.9**	**106.8**	**-4.6**	**92.6**	**97.7**	**5.5**	**120.8**	**109.3**	**-9.5**
Tea	99.2	93.5	-5.7	85.5	88.8	3.9	116.0	105.3	-9.3
Rubber	18.2	14.0	-23.4	26.7	24.0	-10.1	68.4	58.3	-14.8
Coconut	187.8	198.9	6.0	132.8	177.6	33.8	141.4	112.0	-20.8
Spices	173.9	150.9	-13.2	120.5	115.0	-4.6	144.3	131.2	-9.1
Minor Agricultural Products	165.7	168.1	1.4	162.0	163.0	0.6	102.3	103.1	0.8
Industrial Exports	**152.0**	**154.7**	**1.8**	**158.7**	**170.8**	**7.6**	**95.7**	**90.6**	**-5.4**
Textiles and Garments	158.6	166.9	5.2	132.4	143.2	8.2	119.8	116.6	-2.7
Petroleum Products	236.3	198.0	-16.2	251.1	246.7	-1.8	94.1	80.3	-14.7
Rubber Products	157.2	155.6	-1.1	111.4	109.4	-1.8	141.1	142.2	0.7
Mineral Exports	**141.8**	**139.9**	**-1.4**	**99.3**	**98.2**	**-1.1**	**142.8**	**142.4**	**-0.2**
Total Exports	**137.9**	**138.5**	**0.4**	**137.3**	**147.2**	**7.2**	**100.4**	**94.1**	**-6.3**
IMPORTS									
Consumer Goods	**201.3**	**159.9**	**-20.5**	**183.4**	**145.4**	**-20.7**	**109.7**	**110.0**	**0.2**
Food and Beverages	121.4	107.9	-11.2	129.5	120.5	-7.0	93.8	89.5	-4.5
Non-Food Consumer Goods	293.0	219.7	-25.0	245.3	174.0	-29.1	119.4	126.3	5.7
Intermediate Goods	**155.2**	**141.3**	**-9.0**	**162.2**	**156.0**	**-3.8**	**95.6**	**90.5**	**-5.3**
Fuel	136.5	128.0	-6.3	152.5	151.8	-0.5	89.5	84.3	-5.8
Fertiliser	108.9	92.2	-15.4	136.0	119.5	-12.1	80.1	77.1	-3.7
Chemical Products	173.9	159.9	-8.0	165.2	155.7	-5.8	105.3	102.7	-2.4
Wheat and Maize	140.7	130.5	-7.3	134.2	127.5	-5.0	104.8	102.3	-2.4
Textiles and Textile Articles	158.0	160.8	1.8	144.3	153.9	6.6	109.5	104.5	-4.5
Plastics and Articles thereof	164.9	144.9	-12.1	166.9	158.5	-5.0	98.8	91.4	-7.5
Diamonds, Precious Stones and Metals	151.7	53.3	-64.8	169.1	66.5	-60.7	89.7	80.2	-10.6
Investment Goods	**170.2**	**167.1**	**-1.9**	**208.2**	**211.5**	**1.6**	**81.8**	**79.0**	**-3.4**
Building Materials	185.5	183.6	-1.0	212.1	215.1	1.5	87.5	85.3	-2.5
Transport Equipment	112.8	100.7	-10.7	109.3	93.7	-14.3	103.1	107.5	4.2
Machinery and Equipment	186.3	186.1	-0.1	249.6	261.5	4.8	74.6	71.2	-4.6
Other Investment Goods	181.7	228.0	25.5	181.9	220.4	21.2	99.9	103.5	3.6
Total Imports	**165.8**	**148.7**	**-10.3**	**174.3**	**164.2**	**-5.8**	**95.1**	**90.5**	**-4.8**
Terms of Trade							**105.6**	**103.9**	**-1.6**

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

Source : Central Bank of Sri Lanka

Figure 5.6
Terms of Trade and Trade Indices



line with lower prices in the international market. Further, prices of base metals and articles and wood and paper products declined by 18.9 per cent and 17.9 per cent, respectively. In addition, price indices for machinery and mechanical appliances, gems, diamonds and jewellery, and textiles and garments declined during the period. However, price indices pertaining to transport equipment, chemical products and rubber products, categorised under industrial exports, increased in 2019. Meanwhile, the price index for agricultural exports declined by 9.5 per cent in 2019, mainly driven by price reductions reported in the traditional export commodities, namely, tea, rubber and coconut. The price index for tea declined by 9.3 per cent, while the price indices for rubber and coconut also declined by 14.8 per cent and 20.8 per cent, respectively. Price indices pertaining to spices, unmanufactured tobacco and seafood also declined, while price indices for vegetables and minor agricultural products increased during the year. The price index pertaining to mineral exports also declined marginally by 0.2 per cent during 2019 in comparison to 2018.

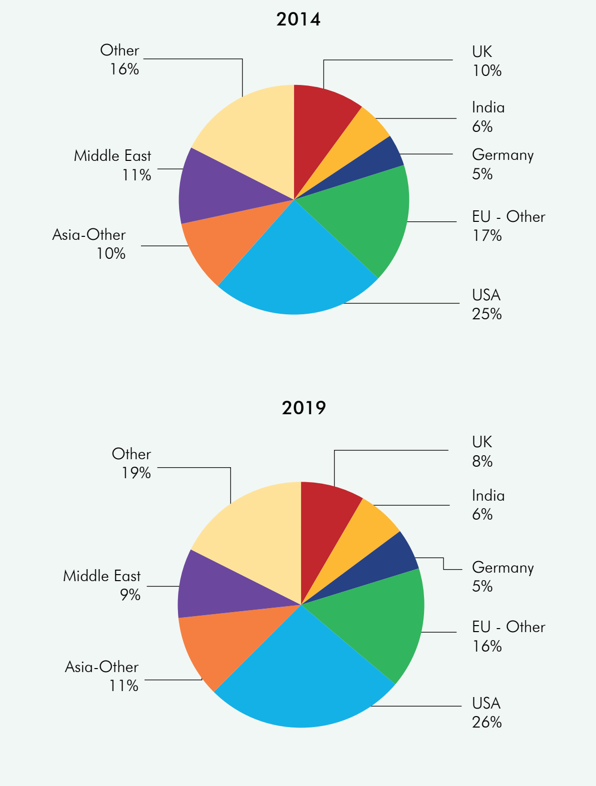
The overall import price index declined in 2019 mainly due to low prices pertaining to intermediate goods and investment goods imports. The import price index of intermediate goods declined by 5.3 per cent, due to price reductions recorded in almost all subcategories, except the price index of vehicle and machinery parts. The price index for fuel declined by 5.8 per cent, while prices of base metals and plastic and articles thereof declined by 11.2 per cent and 7.5 per cent, respectively. In addition, prices of agricultural inputs, rubber and articles thereof, diamonds, precious stones and metals, wheat and maize and fertiliser declined during the period. The price index in respect of investment goods declined by 3.4 per cent in 2019 compared to the previous year, mainly due to the decline in prices of machinery and equipment and building materials by 4.6 per cent and 2.5 per cent, respectively. However, import prices of transport equipment increased by 4.2 per cent in 2019. Even though the import price index for food and beverages declined, the import price index for consumer goods increased marginally by 0.2 per cent due to the 5.7 per cent increase recorded in the prices of non-food consumer goods. Within the non-food consumer goods category, the price index for vehicles increased by 12.3 per cent, while price indices for clothing and accessories, household and furniture items and rubber products also increased. However, prices of telecommunication devices, home appliances and medical and pharmaceutical imports declined during 2019. The import price index pertaining to food and beverages declined by 4.5 per cent, mainly due to the decline in prices of cereals and milling industry products and sugar and confectionery by 21.9 per cent and 10.9 per cent, respectively. Import price indices pertaining to oils and fats, dairy products and vegetables also declined. However, import prices pertaining to seafood and spices increased during the period under consideration.

5.3.5 Direction of Trade

Sri Lanka's major trading partners broadly remained unchanged in 2019 from the previous year. In value terms, India continued to be the major trading partner of Sri Lanka in 2019, followed by China and the USA, all of which together contributed around 40 per cent of total trade of Sri Lanka. However, total trade with India, which exceeded US dollars 5 billion in 2018, declined to US dollars 4.7 billion in 2019. Trade with China also declined but remained above US dollars 4 billion as in the previous year, and trade with the USA exceeded US dollars 3 billion. The United Arab Emirates (UAE), the UK, Japan, Singapore and Germany were the other major trading partners, which accounted for total trade to the value of more than US dollars 1 billion each in 2019. The decline in total trade with India in 2019 was due to a notable reduction in imports and moderate reduction in exports in comparison to 2018. Total trade with China dropped owing to a decline in imports from China. In addition, total trade with the UAE, Japan, Singapore and Germany also declined in 2019 in comparison to 2018. In contrast, total trade with the USA and the UK increased due to the combined effect of increased exports and imports with these countries in 2019 in comparison to 2018. Western countries, mainly the USA and the UK, continued to be the major destinations for Sri Lankan exports in 2019 as well, while Asia, mainly China and India, towered over the rest with respect to imports to Sri Lanka.

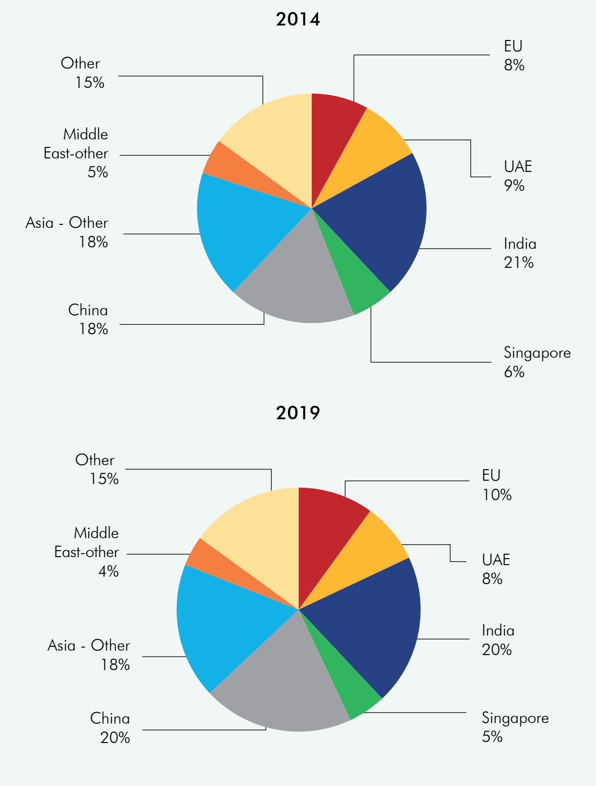
The USA remained the single largest buyer of Sri Lankan exports. The share of total export earnings from the USA increased to 26.3 per cent compared to 25.9 per cent in 2018. Export earnings from the USA increased by 1.8 per cent to US dollars 3,141 million in 2019, mainly due to exports of garments, rubber products, base metals, food, beverages and tobacco and tea, which accounted for about 87 per cent of total exports to the USA. The USA continued to be the single largest garment export destination for Sri Lanka as well, accounting for about 45 per cent of total garment exports in 2019. However, earnings from seafood exports to the USA declined considerably by 37.9 per cent in 2019, while earnings from machinery and mechanical appliances, spices and coconut kernel products exports to the USA also declined. The UK, as the second largest export destination, accounted for 8.4 per cent of Sri Lanka's exports with around 14 per cent of Sri Lanka's garments being exported to the UK. Export earnings from the UK increased in 2019 by 1.8 per cent to US dollars 998 million due to increased earnings on account of garments, machinery and mechanical appliances made up textile articles transport equipment and seafood, rubber products and tea. However, food, beverages and tobacco, coconut products and spice exports to the UK declined in 2019. Total exports to India, the third largest buyer of Sri Lanka's exports accounting for 6.4 per cent of total exports, declined by 1.1 per cent to US dollars 768 million in 2019 from US dollars 777 million in 2018. This decline mainly emanated from the decline in earnings from exports of petroleum products, garments, base metal and articles, and machinery and mechanical appliances. However, animal fodder, coconut kernel products, textiles and tea exports to India increased in 2019. Meanwhile, exports to Germany, which accounted for 5.4 per cent of total exports, increased by 5.5 per cent in 2019. Garments, rubber products and tea, which accounted for around 70 per cent of total exports to Germany, largely contributed to the increase in export earnings from Germany in 2019. Italy, which accounted for 4.4 per cent of total export earnings remained the fifth largest export destination of Sri Lanka, despite a decline in export earnings by 7.7 per cent in 2019, mainly due to a decline in garments, rubber products and gem, diamonds and jewellery and tea exports, which accounted for about 89 per cent of total exports to Italy. Exports to the EU, being the most dominant region for Sri Lankan exports accounting

Figure 5.7
Exports by Destination



Source : Sri Lanka Customs

Figure 5.8
Imports by Origin



Source : Sri Lanka Customs

for about 30 per cent of total exports, increased by 2.2 per cent to US dollars 3,552 million in 2019. Increased export earnings from garments, seafood and transport equipment, which accounted for 65 per cent of total exports to EU, largely contributed to this increase, reflecting the positive impact of the restoration of the EU GSP+ facility and the removal of the ban on exports of fisheries products to the EU. In 2019, the Middle East and Commonwealth of Independent States (CIS) led by Russia were the main export destinations for Sri Lanka's tea exports. They contributed 42 per cent and 17 per cent, respectively, of total tea export earnings, despite registering a decline in tea exports to these countries.

China regained its position as the main source of imports of Sri Lanka in 2019, for the second time since 2016. China accounted for a notable share of 20.2 per cent of total import expenditure in 2019 in comparison to the share of 18.5 per cent recorded in 2018. However, import expenditure from China declined by 2.0 per cent to US dollars 4,034 million in 2019, mainly due to lower imports of telecommunication devices, base metals and chemical products. Major imports from China during the year 2019 were textiles and textile articles, machinery and equipment and building material, which accounted for 64 per cent of import expenditure from China. India and the UAE followed as the second and the third import sourcing countries in 2019, recording US dollars 3,899 million (accounting for 19.6 per cent of total imports), and US dollars 1,669 million (accounting for 8.4 per cent), respectively. With respect to India, main imports comprised textiles and textile articles, petroleum products, building material, machinery and equipment and chemical products, which altogether accounted for 51 per cent of total imports from India. Major imports from the UAE were petroleum products, mineral products and base metals, which accounted for 88 per cent of total imports from the UAE. Singapore and Japan were the fourth and fifth largest import sourcing countries, accounting for 4.8 per cent and 4.4 per cent of total imports, respectively, in 2019. Expenditure on imports from Singapore declined significantly by 29.7 per cent to US dollars 964 million in 2019, decreasing its share of total imports to 4.8 per cent from 6.2 per cent in 2018, mainly due to the considerable reduction in imports of petroleum products. Major imports from Singapore in 2019 consisted of petroleum products, machinery and equipment and chemical products, accounting for 89 per cent of import expenditure from Singapore. Expenditure on imports from Japan declined by 44.8 per cent to US dollars 875 million in 2019, reducing its share to 4.4 per cent from 7.1 per cent in 2018 mainly due to the reduction in imports of personal motor vehicles. Major imports from Japan during 2019 were personal motor vehicles, transport equipment, and machinery and equipment, which accounted for 79 per cent of imports from Japan.

5.4 Current and Capital Account

5.4.1 Trade in Services

The services account was significantly affected by the Easter Sunday attacks in 2019. The surplus in the trade in services account recorded a notable decline in 2019, primarily due to the reduction in earnings from the tourism and transport sectors during this period. During 2019, earnings from tourism and air passenger transport services declined due to the impact of the Easter Sunday attacks, while earnings from telecommunication services, computer services and other services increased during the year. Overall, earnings from export of services declined by 10.7 per cent to US dollars 7,474 million in 2019 from US dollars 8,374 million in 2018. Meanwhile, outflows from the services account recorded a marginal increase of 0.4 per cent to US dollars 4,625 million during the year, with other services outflows including insurance, financial, telecommunication and computer services recording an increase while expenditure on personal travel abroad, passenger transport services recorded a decline during

Table 5.7
Current and Capital Account

US$ million

Item	2018 (a)			2019 (b)		
	Credit	Debit	Net	Credit	Debit	Net
Goods and Services	20,264	26,841	-6,577	19,414	24,562	-5,148
Goods	11,890	22,233	-10,343	11,940	19,937	-7,997
General merchandise	11,890	21,794	-9,904	11,940	19,935	-7,995
Non-monetary gold	-	439	-439	-	3	-3
Services	8,374	4,608	3,766	7,474	4,625	2,849
Transport	2,486	1,737	750	2,339	1,710	630
Sea transport	1,134	819	315	1,155	820	335
Freight	1,134	819	315	1,155	820	335
Air transport	1,353	918	435	1,184	889	295
Passenger	1,227	827	400	1,056	798	258
Freight	126	91	35	128	91	37
Travel (c)	4,381	1,660	2,721	3,607	1,638	1,969
Construction	65	33	32	67	35	32
Insurance and pension services	130	97	33	137	102	36
Financial services	242	447	-205	213	470	-258
Telecommunications and computer services	995	484	511	1,054	515	539
Telecommunications	147	112	35	155	135	21
Computer services	848	372	475	899	380	519
Other business services	40	75	-34	35	78	-43
Government goods and services n.i.e.	35	75	-41	21	77	-56
Primary Income	249	2,633	-2,385	252	2,678	-2,426
Compensation of employees	28	102	-74	31	130	-99
Investment income	221	2,532	-2,311	220	2,548	-2,327
Direct investment	23	783	-760	26	863	-837
Dividends	13	558	-545	14	599	-585
Reinvested earnings	10	225	-215	13	264	-252
Portfolio investment	-	1,037	-1,037	-	1,007	-1,007
Equity	-	70	-70	-	31	-31
Interest	-	967	-967	-	976	-976
Short term	-	4	-4	-	8	-8
Long term	-	963	-963	-	969	-969
Other investment	88	711	-623	97	677	-580
Reserve assets	110	-	110	97	-	97
Secondary Income	7,023	860	6,163	6,726	960	5,766
General government	8	-	8	9	-	9
Workers' remittances	7,015	860	6,155	6,717	960	5,757
Current Account	27,535	30,334	-2,799	26,392	28,200	-1,808
Capital Account	42	27	14	51	28	23
Capital transfers	42	27	14	51	28	23
General government	14	-	14	16	-	16
Corporations and households	28	27	...	34	28	7
Current and Capital Account	27,577	30,362	-2,785	26,443	28,228	-1,785

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

Source: Central Bank of Sri Lanka

the year, following the Easter Sunday attacks. Meanwhile, the computer services sector continued its growth momentum during 2019. Reflecting these developments, the surplus in the services account declined to US dollars 2,849 million in 2019 compared to a surplus of US dollars 3,766 million recorded in 2018.

Transport Services

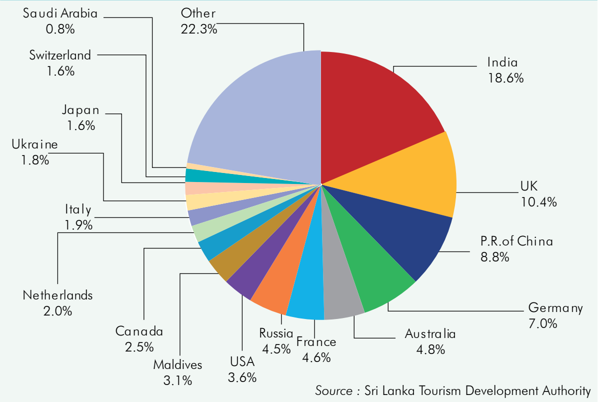
The surplus in transport services contracted due to reduced air passenger transport services in 2019. Gross inflows of transportation services, which consist of passenger fares, freight charges, port and airport related activities, amounted to US dollars 2,339 million in 2019 compared to US dollars 2,486 million in 2018. The reduction is largely explained by the decline in air passenger transport services following the Easter Sunday attacks. However, sea transport services recorded a modest growth amidst a growth in freight earnings. Meanwhile, outflows on account of transportation services also declined to US dollars 1,710 million in 2019, from US dollars 1,737 million in 2018. Consequently, net inflows from the transport sector declined to US dollars 630 million during 2019, from US dollars 750 million in 2018. Earnings from air passenger fares declined to US dollars 1,056 million in 2019 from US dollars 1,227 million in 2018, with the decline in passenger arrivals to Sri Lanka in the aftermath of the Easter Sunday attacks, which also prompted SriLankan Airlines to reduce air fares and issue discounted prices for several months from April 2019. However, earnings from air passenger fares improved during the latter part of the year with a faster than expected recovery in tourist arrivals parallel to the winter tourist season and the normalisation of air fares. With some expansion in port related activities, reflecting increased cargo, container and transshipment volumes handled at the port of Colombo, inflows on account of freight charges with respect to sea transport services increased marginally, while airport related freight services also increased, resulting in a growth of earnings from freight services by 1.9 per cent to US dollars 1,283 million in 2019.

Travel and Tourism

The tourism industry, which was severely affected by the Easter Sunday attacks, recovered faster than expected by the end of 2019, supported by swift action taken by relevant authorities. Tourist arrivals, which recorded the highest ever quarterly arrivals during the first quarter of 2019, recorded an overall decline of 18.0 per cent to 1,913,702 arrivals in 2019, in comparison to 2,333,796 arrivals recorded in 2018. A notable decline was observed in tourist arrivals following the issuance of travel advisories by main countries of tourist origins following the Easter Sunday attacks. However, remedial measures taken on the policy front, improvement in security conditions, financial support for businesses in the tourism sector, tourism promotion and softening of travel advisories by mid-2019 helped revive tourist arrivals at a faster than anticipated pace by the end of the year. Accordingly, tourist arrivals gradually recovered, recording only a 4.5 per cent decline on a year-on-year basis in December 2019 from the decline of 70.8 per cent in May.

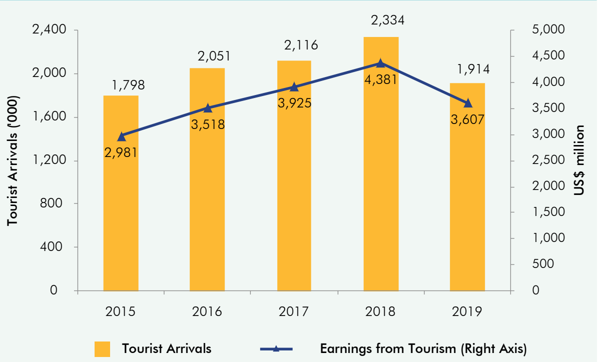
Tourist arrivals from all major regions, declined in 2019. Europe continued to be the largest tourist origin for Sri Lanka with 887,572 arrivals, accounting for 46.4 per cent of total tourist arrivals. However, tourist arrivals from Europe declined by 12.8 per cent in 2019 in comparison to 2018, driven by the decline of arrivals from Western, Northern, Southern and Mediterranean sub regions, despite the increase recorded in arrivals from Central and Eastern Europe, with an

Figure 5.9
Tourist Arrivals by Country - 2019



Source : Sri Lanka Tourism Development Authority

Figure 5.10
Tourist Arrivals and Earnings from Tourism



Source : Sri Lanka Tourism Development Authority

impressive growth of arrivals from Russia. The Asia Pacific region recorded the second highest arrivals in 2019 with 839,470 tourists, accounting for 43.9 per cent of total tourist arrivals, despite the overall decline of 23.1 per cent. This decline of tourists from the Asia Pacific region made the largest contribution to the decline in total arrivals in 2019. In terms of tourist arrivals by countries, India remained the leading country of origin with 355,002 arrivals, followed by the UK, China, Germany and Australia. The top five inbound tourist origins collectively accounted for around 50 per cent of total arrivals in 2019. Among the top ten inbound tourist origins, only arrivals from Russia registered a growth, amounting to 34.2 per cent mainly due to arrivals of tourists by Charter Flights. In terms of the purpose of visit, over 83 per cent of tourists visited the country for leisure, while 3.7 per cent for business purposes. Less than 2 per cent visited for meetings, incentives, conferences, exhibitions (MICE) and sporting events. Arrivals for various other purposes, such as visiting friends and relatives, and religious, health and education purposes accounted for 11.4 per cent of total arrivals.

A significant decline in tourist earnings was recorded as a result of the reduced tourist arrivals after the Easter Sunday attacks. As per the annual survey on tourist spending conducted by the Sri Lanka Tourism Development Authority (SLTDA), the average spending per tourist in 2019 rose to US dollars 181.23 per day from US dollars 173.80 per day in 2018. The SLTDA survey suggests an increase in spending for accommodation as the main reason for the increase in average spending per tourist, despite some adverse impacts on pricing after the Easter Sunday attacks. The average duration of stay by a tourist was estimated at 10.4 days in 2019, in comparison to 10.8 days in 2018. Consequently, despite an increase in average spending by tourists, due to the significant decline in tourist arrivals and a marginal decline in the average duration of stay period, earnings from tourism declined by 17.7 per cent to US dollars 3,607 million in 2019, in comparison to US dollars 4,381 million in 2018. Meanwhile, outflows related to travel were also estimated to have declined to US dollars 1,638 million, recording a reduction of 1.3 per cent in 2019, mainly due to reduced travel abroad by Sri Lankans in the aftermath of the Easter Sunday attacks. Consequently, the net inflows to the travel and tourism sub sector declined significantly from US dollars 2,721 million in 2018 to US dollars 1,969 million in 2019.

Despite the setback in tourist arrivals in the aftermath of the Easter Sunday attacks, the tourism industry continued to attract notable

Table 5.8
Performance in the Tourism Sector

Item	2015	2016	2017	2018	2019 (a)	Y-o-Y Change 2019
Tourist Arrivals (No.)	1,798,380	2,050,832	2,116,407	2,333,796	1,913,702	-18.0
Arrivals by Purpose of Visit						
Pleasure	1,198,240	1,710,027	1,744,149	1,979,819	1,592,212	-19.6
Business	23,323	37,121	70,683	71,255	70,068	-1.7
Other	576,817	303,684	301,575	282,722	251,422	-11.1
Tourist Guest Nights ('000)	18,163	20,918	23,068	25,205	19,903	-21.0
Room Occupancy Rate (%)	74.5	74.8	73.3	72.8	57.1	-21.6
Gross Tourist Receipts (Rs. million)	405,492	512,373	598,143	711,961	646,362	-9.2
Per Capita Tourist Receipts (Rs.)	225,476	249,837	282,622	305,066	337,755	10.7
Total Employment (No.) (b)	319,436	335,659	359,215	388,487	402,607	3.6
Direct Employment	135,930	146,115	156,369	169,003	173,592	2.7
Indirect Employment	183,506	189,544	202,846	219,484	229,015	4.3

(a) Provisional
(b) Estimates

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

investments in 2019. The Investor Relations Unit (IRU) of SLTDA (formerly known as the One Stop Unit), granted approval for 59 hotel projects in 2019, with a collective capacity of 2,237 rooms. During 2019, new proposals worth US dollars 189 million for 132 hotels were referred to the IRU, and upon completion of these projects, further 2,584 rooms will be added to the industry. Of these, 66 new proposals worth US dollars 81.6 million were received during the second half of 2019, indicating the continued interest of investors in the potential of Sri Lanka's tourism industry.

Several policy measures and numerous promotional campaigns were implemented in 2019 to harness the potential of Sri Lanka's tourism industry with special activities being carried out following the terrorist attacks on Easter Sunday. Accordingly, an economic relief package, including a debt moratorium was introduced in May 2019. Initially this relief package was valid till 31 March 2020, but it was subsequently extended till 31 March 2021, covering both capital and interest on loans taken by registered businesses in the tourism industry. It is likely that with the ongoing COVID-19 pandemic, which will have a devastating impact on tourism, such relief would be expanded further. A separate relief package was introduced by the Ministry of Finance, in May 2019, focusing mainly on informal sector stakeholders of the tourism sector. Schemes were also introduced to grant working capital loans at concessionary rates to registered businesses under the Enterprise Sri Lanka initiative. Further, Value Added Tax (VAT) on registered hotels and tour operators was reduced to 7 per cent in June 2019 and eliminated in December 2019. Measures were also taken to improve the security situation in the country in order to build confidence among tourists. Further, import duty on security related products was also removed. Special emphasis was placed on tourism promotion after the Easter Sunday attacks, where the Sri Lanka Tourism Promotion Bureau (SLTPB) took prompt action by organising press trips with several international travel influencers, arranging visits of Travel Associations and holding media events in China and India to regain the tourism image of Sri Lanka. Meanwhile, the SLTPB continued its routine promotional activities in identified markets. Accordingly, the SLTPB carried out 59 travel and tourism fairs and 18 road shows, giving opportunities to local travel organisations to create direct business relationships. In addition, outdoor advertising campaigns covering

BOX 9
The Impact of the Easter Sunday Attacks

On 21 April 2019, the day of the Easter Sunday celebrations, three churches located in Negombo, Batticaloa and Colombo and three luxury hotels in Colombo were attacked in a series of coordinated suicide bombings planned by a local militant group that had declared allegiance to a foreign terrorist organisation. More than 250 civilians were killed due to this tragic event including foreign nationals, while more than 500 were estimated to have been injured.

Following the Easter Sunday attacks, the government declared a state of emergency and imposed nightly police curfew for several days. All schools and state universities of the country were closed for two weeks following the incident. The government blocked major social media platforms to prevent the spread of misinformation that could lead to violence among communities. The operations of the Colombo Stock Exchange were also temporarily suspended on 22 April 2019. It took about two weeks after the incident for civilian life and economic activities to show any sign of return to normalcy. Meanwhile, the Central Bank also adopted an accommodative monetary policy stance commencing May 2019, amidst subpar economic growth that was further affected by the Easter Sunday attacks, decelerating private sector credit, muted inflation expectations and inflation outlook.

The series of attacks particularly affected the tourism industry tremendously, while causing negative spillover effects on several other sectors such as air transportation services, domestic transportation, wholesale and retail trade and accommodation, food and beverage service activities, leisure and entertainment, manufacturing of food and beverages and agriculture. The exchange rate also experienced some pressure in the immediate aftermath of the attacks, with withdrawals of foreign investment from the government securities market. The Colombo Stock Exchange also experienced a setback with a fall in price indices and market capitalisation. However, the exact economic impact of the terrorist attacks cannot be quantified, as other major events, such as global economic and financial market developments, adverse weather conditions that prevailed throughout the second half of 2019 and the uncertainty that prevailed until the conclusion of the presidential election in the latter part of the year, also impacted the economic slowdown in the aftermath of the Easter Sunday attacks. Nevertheless, it can be concluded that the attacks impacted the already sluggish economic growth, and largely contributed to the slow growth of 2.3 per cent in 2019.

The fiscal performance deteriorated in 2019, with the poor revenue collection as a result of deceleration in overall economic activity, partly due to the Easter Sunday attacks. In addition, government expenditure is also estimated to have been increased with the implementation of relief packages facilitating the recovery of the affected parties, strengthened security measures, provision of interest subsidies and reconstruction of affected public infrastructure. However, even after the Easter Sunday attacks, the government of Sri Lanka issued an International Sovereign Bond to the value of US dollars 2 billion in June 2019 and the oversubscription reflected the international investor community's continued support for Sri Lanka and their confidence in the country's long term growth prospects.

According to the estimates of the Sri Lanka Tourism Development Authority (SLTDA), direct and indirect employment in the tourism sector is 4.6 per cent of the total labour force in Sri Lanka. Moreover, tourism earnings as a share of the country's GDP is approximately 4-5 per cent. Following the terrorist attacks, 37 countries, including top most inbound tourist origins of Sri Lanka, issued travel advisories at various levels of risks, though most of which were lifted in subsequent months with the improvement of the security conditions of the country. According to an analysis by ForwardKeys, which forecasts future travel patterns by analysing over 17 million flight booking transactions a day, in the three days immediately after the attacks, cancellations of existing flight bookings surged by 86.2 per cent whilst new bookings declined sharply. Tourist arrivals per day, which averaged around 7,600 during 2019 prior to the attacks, dropped significantly to around 1,700 during the two month period after the attacks. However, Sri Lanka's tourism industry witnessed a speedy recovery during the second half of the year with average arrivals per day increasing to around 6,900 during the last two months of the year. Nevertheless, on a cumulative basis, tourist arrivals declined by 18.0 per cent (year-on-year) to 1,913,702 which led earnings from tourism to decline by 17.7 per cent to US dollars 3,607 million in 2019.

Some of the major tourist destinations around the world have experienced similar terror attacks in recent years. Recent examples are the Paris attacks in November 2015 and the Brussels bombings in March 2016. However, these countries have recovered eventually with timely implementation of appropriate measures. Tourism in Metropolitan France has strongly rebounded since October 2016,[1] less than a year after the terrorist attacks, while the Brussels region also showed signs of recovery since October 2016,[2] seven months after the terrorist attacks. According to the estimates of the World Travel and Tourism Council, the time taken for destinations to recover from the impact of terrorist attacks is around 13 months, whereas it would take around 27 months to recover from political turmoil. Average recovery times after a pandemic and an environmental disaster are much longer than that of a terrorist attack which are estimated at 21 months and 24 months, respectively.

1 National Institute of Statistics and Economic Studies, France, 2017.

2 Annual Report of the Brussels Tourism Observatory, 2016.

Figure B 9.1
Monthly Tourist Arrivals before and after the Easter Sunday Attacks

Source: Sri Lanka Tourism Development Authority

Note: Tourist arrivals during the period shaded (in grey) were affected by the outbreak of the COVID-19 pandemic.

Figure B 9.1 depicts the path of recovery in tourist arrivals after the Easter Sunday attacks, in response to the measures taken to revive the industry. Tourist arrivals experienced a drastic drop of 71 per cent (year-on-year) in May 2019. However, tourist arrivals picked up gradually in the following 3 months and demonstrated a dip in September before increasing sharply towards the end of the year, by the beginning of the tourist season. Accordingly, arrivals in the month of November recorded only a decline of 9.5 per cent while this decline further lowered to 4.5 per cent in December. These statistics indicate that Sri Lanka's tourism sector almost completely recovered within 7 months after the terrorist attacks, which is less than the average time of 13 months as estimated by the World Travel and Tourism Council. However, the negative impact of the outbreak of the COVID-19 pandemic on global and domestic tourism will be reflected in the number of tourist arrivals in 2020.

The government of Sri Lanka took several measures to rebuild the tourism industry after the Easter Sunday attacks. Special emphasis was placed on tourism promotion, financial and fiscal support to sectors directly linked to the tourism sector. Accordingly, an economic relief package, including a debt moratorium, was introduced in May 2019, on both capital and interest payments related to credit facilities obtained by registered businesses in the tourism industry. This moratorium which was to be valid until end March 2020 has been extended due to the outbreak of the COVID-19 pandemic. In addition to the debt moratorium, a separate relief package was introduced by the government, in May 2019, focusing mainly on informal sector stakeholders of the tourism sector. Moreover, licensed commercial banks were also permitted to use the funds in *Jaya Isura* loan scheme under the government's Enterprise Sri Lanka programme and the *Saubagya* loan scheme of the Central Bank of Sri Lanka to grant working capital facilities to those who are engaged in the tourism industry. Further, Value Added Tax (VAT) on registered hotels and tour operators was reduced to 7 per cent from 15 per cent for the period of 01 June 2019 to 30 November 2019 while import duty was removed on security related products. With effect from 01 December 2019, a VAT rate of zero per cent will be charged on supply of services by hotels and similar businesses providing similar services which are registered under the SLTDA, if 60 per cent of the total value of inputs are sourced from local suppliers whereas other businesses will be charged at a rate of 8 per cent. In order to rebuild the brand image of Sri Lanka, Sri Lanka Tourism Promotion Bureau (SLTPB) carried out targeted promotional campaigns, which included organising press trips with several international travel influencers, arranging visits of Travel Associations and holding press conferences in China and India. The SLTPB also launched 15 special promotional packages for reservations made through the travel agent network in India. Routine promotional activities in identified markets were conducted by way of travel and tourism fairs and road shows while also carrying out outdoor advertising campaigns in subway stations abroad. These efforts were complemented by a digital advertising campaign and a television campaign in collaboration with CNN. The subsequent improvement in the security conditions of the country and continued promotional activities, by both private sector and government stakeholders of the tourism industry, contributed to the faster recovery of the tourism sector.

The country's ability to regain the momentum of economic activity after a terror attack or any other crisis situation at a faster pace depends on the availability of robust contingency plans, disaster recovery programmes and risk management protocols. Therefore, being proactive, rather than reactive, is a critical factor in an event of a crisis. In this aspect, aligning law and order authorities, civil society, tourism authorities and the media to face such crises is essential for the success in improving business and tourism resilience. Sri Lanka has, from time to time, proven its ability to withstand many tragic events, including a 30-year armed conflict, devastation by a Tsunami and the Easter Sunday attacks. Despite the gradual recovery, many global vulnerabilities, the latest being the COVID-19 pandemic are bound to impact the country's tourism sector and other economic activities. Therefore, emergency preparedness from all perspectives, including macroeconomic policy, is vital in improving the country's resilience to handle such unforeseen events, thereby minimising their adverse economic and social impact.

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5 Wong, J. (2019) *Sri Lanka suffers cancellation tsunami.* https://forwardkeys.com/sri-lanka-easter-attacks/

subway stations and well-known overseas tourist attractions were carried out with a six-month digital advertising campaign during 2019. A three-month television campaign was conducted with CNN and a print advertising campaign was carried out in key tourist source markets. The SLTPB visiting bloggers programme continued in 2019 with 57 bloggers and social media influencers, while 62 journalists were hosted under the visiting journalist programme. Meanwhile, around 99,000 passengers from 53 cruise ships arrived at the Colombo Port during 2019. Further, the second leg of several internationally popular adventure sports events, such as Ironman 70.3 and Raid Amazons were held in 2019, promoting Sri Lanka as a diverse adventure tourist destination in the region. In addition, it was also proposed to carry out a five-year global communication campaign covering key source markets of Sri Lanka, with an objective of achieving a revenue target of US dollars 10 billion by the year 2025.

Following the Easter Sunday attacks that caused a major blow to the country's tourism sector, it became apparent that a coherent recovery plan in close consultation with all stakeholders of the tourism industry was required for the sector to rebound. However, as a country that withstood more than three decades of terrorism until 2009, Sri Lanka possesses experience in managing the consequences of unexpected events. Thus, further strategies for security enhancements, restoring investor confidence, attracting tourists from niche markets, better pricing of accommodation and training on service standards are required. Sri Lanka should adopt robust contingency plans, disaster recovery programmes and risk management protocols in order to restore tourists' confidence in the safety and normalcy of their destination. Tourism sector development authorities and all stakeholders need to work together with the media with special reference to various social media platforms as a means to change the perception of the tourists by creating impactful media campaigns to attract and retain tourists. Moreover, it is essential to introduce smart technology based solutions to uplift the tourism sector considering the entire life cycle of a tourist starting from their arrival up to their departure from the country. These smart solutions can be introduced in the form of focused messaging while arriving in the country, automation of visa granting process and border control, enabling free connectivity at popular tourist attractions across the country, developing new travel specific information applications to be used at historical sites and museums and finally encouraging tourists to share their experiences. The tourism sector could suffer a further setback during the period ahead, following the outbreak of COVID-19 that originated in China. Preventive measures were taken by relevant authorities, including suspending passenger arrivals from all countries at the Bandaranaike International Airport and all other international airports for the operation of inward international commercial passengers from March 2020 to ensure that the spread of this disease is curtailed so that the residents as well as the tourists are free from its impact.

Telecommunications, Computer and Information Services

Earnings from telecommunication, computer and information services continued to expand in 2019. Total earnings from the export of the telecommunication, computer and information services grew by 5.9 per cent to US dollars 1,054 million in 2019. Earnings from telecommunications services sub sector increased during the year to US dollars 155 million in 2019 from US dollars 147 million in 2018. This growth mainly originated from increased usage of internet based communication facilities, supported by broadband data services. The government also took measures to reduce the Telecommunication Levy (TL) imposed from December 2019, which is expected to further stimulate growth in the telecommunications sector. It is expected that the data driven growth of the telecommunications sector would grow at a significant pace and the 4G smartphone penetration would improve significantly. The major players of the telecommunications industry are also looking at possibilities of launching a 5G network, further developing the telecommunications infrastructure, which is expected to facilitate data transfer speeds ten times higher than those afforded by 4G LTE networks.

The computer and information services sub sector continued its growth momentum in 2019. Accordingly, inflows to computer and information services increased from US dollars 848 million in 2018 to US dollars 899 million in 2019. Continued expansion of Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) contributed to the growth in this sector. Sri Lanka was awarded the Delivery Destination Award for 2019 by the Global Sourcing Association (GSA) of the United Kingdom, the industry association and professional body for the global sourcing industry. The Sri Lanka Association of Software and Services Companies (SLASSCOM), as the national chamber for the information technology (IT) based knowledge and information industry in Sri Lanka, continued its efforts in business facilitation, education, and employment enhancement as well as research and innovation in the sector by organising a number of events relating to the sector, while promoting key areas of growth and innovation with stakeholder collaboration.

5.4.2 Primary Income

The deficit in the primary income account widened marginally in 2019. The deficit in the primary income account increased to US dollars 2,426 million in 2019 compared to US dollars 2,385 million in 2018, with higher repatriation of dividends and reinvested earnings by foreign direct investment enterprises (DIEs). Dividend payments increased in 2019 compared to the previous year with profitable DIEs opting for higher dividend payments. Reinvested earnings also increased in 2019 with the realisation of comparatively higher profits reported by some large DIEs, particularly publicly listed companies. A modest increase was observed in interest payments on portfolio investment, mainly due to the increase in coupon payments on outstanding stock of ISBs, while coupon payments of Treasury bonds reduced notably with the significant reduction in outstanding foreign investment in Treasury bonds during the year. There was a notable reduction in coupon payments by deposit taking corporations with the maturity of all outstanding international bonds issued by deposit taking corporations by end 2019. Interest payments on government foreign loans, which are recorded under interest payments of other investments in the primary income account, recorded a marginal increase, while interest payments on foreign loans by deposit taking corporations declined marginally during the year. Meanwhile, inflows to the primary income account amounted to US dollars 252 million in 2019 compared to US dollars 249 million recorded in 2018, mainly on account of the increase in interest income by deposit taking corporations.

5.4.3 Secondary Income

Workers' remittances continued to moderate in 2019. Workers' remittances, which account for the majority of inflows in the secondary income account, declined by 4.3 per cent to US dollars 6,717 million in 2019, after declining by 2.1 per cent in 2018. Workers' remittances were impacted by the geopolitical developments in the Middle Eastern economies, where most workers' remittances originate from, amid volatility in international petroleum prices. Further, as per the Sri Lanka Bureau of Foreign Employment, overall labour migration for foreign employment continued its declining trend in 2019 as well. The decline in departures for foreign employment may also be attributed largely to improved opportunities in the domestic labour market and the continuation of government measures to discourage migration of female unskilled labour. Consequently, inflows to the secondary income account declined to US dollars 6,726 million in 2019 compared to US dollars 7,023 million in 2018. Meanwhile, personal transfers abroad and related payments by non-residents living in Sri Lanka increased in 2019. With these developments, net inflows to the secondary income account declined to US dollars 5,766 million in 2019 in comparison to a net inflow of US dollars 6,163 million recorded in 2018.

5.5 Current Account Balance

The external current account deficit narrowed significantly in 2019, responding to policy measures taken in 2018. The current account deficit declined mainly as a result of the significant contraction of the trade deficit, despite the marginal widening of the primary income account deficit and the moderation of surpluses in the services and secondary income accounts. The trade deficit contracted significantly, driven by a sharp contraction in merchandise import expenditure, while merchandise exports recorded a marginal growth during the year. The surplus in the services account moderated primarily due to the reduction in tourist earnings, resulting from the impact of the Easter Sunday attacks. The deficit in the primary income account widened marginally during the year with increased dividends payments and reinvested earnings of DIEs. Workers' remittances contracted during the year, moderating the surplus in the secondary income account. Consequently, the current account deficit narrowed to US dollars 1,808 million in 2019 in comparison to US dollars 2,799 million in 2018, and the current account deficit as a percentage of GDP improved to 2.2 per cent in 2019 in comparison to 3.2 per cent in 2018.

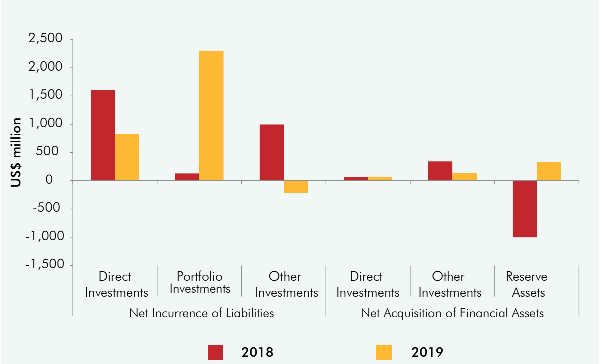
5.6 Capital Account Balance

Inflows to the capital account increased, albeit marginally, in 2019. On a net basis, inflows to the capital account recorded a marginal increase amounting to US dollars 23 million in 2019 compared to US dollars 14 million in 2018, due to the increase in receipts of capital transfers to the government and the private sector.

5.7 Financial Account

Significant inflows to the financial account resulted in both net incurrence of liabilities and net acquisition of assets increasing in 2019 compared to 2018. Higher net inflows to the financial account, driven by increased foreign

Figure 5.11
Financial Account



Source : Central Bank of Sri Lanka

Table 5.9.A
Financial Account

US$ million

Item	2018 (a) Net acquisition of financial assets	2018 (a) Net incurrence of liabilities	2019 (b) Net acquisition of financial assets	2019 (b) Net incurrence of liabilities
Financial Account	-562	2,816	514	2,947
Direct Investment	68	1,614	77	758
Equity and investment fund shares	58	463	65	384
Equity other than reinvestment of earnings	48	238	52	120
Direct investor in direct investment enterprise	48	238	52	120
Reinvestment of earnings	10	225	13	264
Debt instruments	10	1,151	13	374
Direct investor in direct investment enterprise	10	1,151	13	374
Portfolio Investment	-	129	-	2,303
Equity and investment fund shares	-	-4	-	-15
Debt securities	-	134	-	2,317
Deposit-taking corporations	-	-1,350	-	-250
Long term	-	-1,350	-	-250
General government	-	1,484	-	2,567
Short term (Treasury bills)	-	-96	-	55
Long term	-	1,580	-	2,513
Treasury bonds	-	-894	-	-388
Sri Lanka Development bonds	-	-26	-	1
Sovereign bonds	-	2,500	-	2,900
Financial Derivatives	-	-	-	-
Other Investment	372	1,073	100	-114
Currency and deposits	80	-632	-93	167
Central Bank	-	-1	-	...
Short term	-	-1	-	...
Deposit-taking corporations	80	-631	-93	168
Short term	-189	-631	6	168
Long term	268	-	-99	-
Continued on page - 193				
Memorandum Items				
Foreign Direct Investment (FDI)				
Equity		238		120
Reinvestment of earnings		225		264
Intercompany loans		1,581		391
Intercompany loan repayments		-430		-17
Total FDI (1)		1,614		758
Loans to BOI companies (2)		525		445
Total FDI, including loans to BOI companies (1 + 2)(c)		2,139		1,204
Total net inflows to the CSE		-55		-35
Direct investment		-51		-20
Portfolio Investment		-4		-15
Net Foreign investments in rupee denominated government securities (Treasury Bills and Bonds)		-990		-334
Foreign purchases		706		596
Foreign sales		1,696		930

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

Source: Central Bank of Sri Lanka

borrowings by the government compared to debt repayments, resulted in an increase in net incurrence of liabilities in 2019. Accordingly, net incurrence of liabilities amounted to US dollars 2,947 million in 2019 compared to US dollars 2,816 million in 2018. Net acquisition of assets also increased by US dollars 514 million in 2019 compared to a net decline of assets in 2018, mainly due to the increase in gross official reserves. The proceeds from the two ISBs issued by the government in March and June 2019, amounting to US dollars 4.4 billion, and the receipt of the sixth and seventh tranches of the IMF-EFF were the major inflows to the financial account in 2019. The year was characterised by a significant moderation of inflows to equity markets in the form of FDIs and outflows of foreign investments from the CSE, particularly driven by weak investor sentiment in the aftermath of the Easter Sunday attacks and the uncertainty leading up to the presidential election in the latter part of 2019. There were also intermittent outflows of foreign investment from the rupee denominated government securities market, with large net outflows from April to August and in December 2019. Despite these volatilities, moderate net inflows were observed in some periods in the domestic foreign exchange market, which enabled the Central Bank to purchase foreign exchange on a net basis. The government met sizeable debt repayment obligations in 2019, repaying two maturing ISBs amounting to US dollars 1.5 billion as well as the repayment of foreign currency term financing facilities and maturing SLDBs. Financial flows to the banking sector, private sector and state owned business enterprises (SOBEs) moderated, with net outflows as a result of higher debt servicing. Deposit taking corporations also completed repayment of a previously issued international bond in 2019. With these developments, gross official reserves increased to US dollars 7.6 billion by end 2019 from US dollars 6.9 billion at end 2018, while the overall balance in the BOP recorded a surplus of US dollars 377 million at end 2019.

5.7.1 Direct Investment

FDI inflows, which include foreign borrowings of companies registered with the Board of Investment (BOI), declined significantly in 2019. Total FDI inflows, including foreign loans received by BOI companies, amounted to US dollars 1,204 million in 2019. FDI inflows in 2019 were less than the inflows of US dollars 2,139 million in 2018 (US dollars 1,457 million excluding the Hambantota port proceeds received by the government) and US dollars 1,910 million in 2017. The moderation in FDI inflows could be primarily attributed to the weakened investor sentiments with increased uncertainties in the aftermath of the Easter Sunday attacks and political developments. FDI inflows, excluding foreign loans to BOI companies, which amounted to US dollars 758 million, comprised US dollars 374 million of net intercompany debt, US dollars 264 million of reinvested earnings and US dollars 120 million of net investments in equity during the year 2019. In comparison, FDI, excluding foreign loans obtained by BOI companies, amounted to US dollars 1,614 million in 2018. A notable reduction in equity and intercompany borrowings was recorded in 2019 compared to the previous year. However, there was a healthy level of reinvested earnings from a few large publicly listed FDI companies. On a sectoral basis, major FDIs were received by projects related to port infrastructure, property development and hotels and to the telecommunications sector. Based on the origin of the immediate investor, India, Singapore, Canada, Hong Kong and China were the top five source countries of FDI in 2019. Despite some moderation in FDI inflows in the near term, it is expected that the Hambantota industrial zone, the Colombo Port City, the hotel sector and mixed development sector will attract significant inflows in the coming years. The telecommunications sector is also expected to receive notable FDI flows, primarily targeting the development of the Information and Communication Technology (ICT) sector in Sri Lanka. It is also expected that the implementation of the Strategic Project Development Act (SPDA) as well as the recent revisions to the tax structure will also provide impetus to attract FDIs. However, persistent issues such as relatively low ranking in the Doing Business Index, high wage rates and utility costs compared to regional peers, high costs of land acquisition, rigidity in labour laws and government procedures remain the main impediments in terms of attracting FDIs to the country.

5.7.2 Portfolio Investment

Equity

Foreign investments in equity, which reflect foreign equity investments in the CSE, excluding direct investment, recorded a net outflow in 2019. Portfolio investments in equity consist of foreign residents' investments in CSE other than direct investment transactions, and account for investments by non- residents holding less than 10 per cent of the total shareholding of a Sri Lankan enterprise. Portfolio investment in the form of equity recorded a net outflow of US dollars 15 million in 2019. This comprised a net outflow of US dollars 45 million from the secondary market and an inflow of US dollars 30 million to the primary market.

Debt Securities

Financial flows in the form of debt securities increased significantly in 2019 with the issuance of two new ISBs by the government. Sri Lanka's thirteenth and fourteenth US dollar benchmark offerings in the international bond markets were successfully made in March and June 2019, respectively. Two ISBs with 5 year and 10 year maturities to the value of US dollars 2.4 billion were issued in March 2019, while two ISBs with 5 year and 10 year maturities valued at US dollars 2 billion were issued in June 2019. An overwhelming interest from a wide range of investors was observed at these auctions, reflecting global investors' continued confidence in Sri Lanka's macroeconomic outlook. The government also settled two ISBs, amounting to US dollars 1 billion which matured in January 2019 and US dollars 500 million which matured in April 2019. There were sizeable foreign outflows from the Treasury bond market in 2019, recording a net outflow of US dollars 388 million during the year. Meanwhile, there was a net inflow of US dollars 55 million of foreign investments to the Treasury bill market in 2019. Deposit taking corporations also repaid the last part of an international bond issuance amounting to US dollars 250 million during the year.

5.7.3 Other Investment

Currency and Deposits

In relation to deposit taking corporations, currency and deposits in the form of assets decreased, while currency and deposit liabilities increased in 2019. Accordingly, currency and deposits in the form of assets of deposit taking corporations decreased by US dollars 93 million, while currency and deposit liabilities increased by US dollars 167 million in 2019. The relatively moderate net transactions during the year are also reflective of the stability in the domestic foreign exchange market to some extent.

Loans

Net loan inflows to the financial account declined in 2019. The reduction in net loan inflows was mainly due to net loan repayments by deposit taking corporations, the government, SOBEs and private corporations, while net loan inflows to the Central Bank increased during 2019. Accordingly, foreign loans to the financial account recorded a net outflow of US dollars 277 million, in sharp contrast to a net inflow of US dollars 1,620 million in 2018.

Table 5.9.B
Financial Account

US$ million

Item	2018 (a)		2019 (b)	
	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
Other Investment (Continued from page - 191)				
Loans	-	1,620	-	-277
Central Bank	-	252	-	327
Credit and loans with the IMF	-	252	-	327
Extended Fund Facility	-	252	-	327
Deposit-taking corporations	-	697	-	-281
Short term	-	844	-	-1
Long term	-	-146	-	-280
General government	-	557	-	-97
Long term	-	557	-	-97
Other sectors (c)	-	114	-	-226
Long term	-	114	-	-226
Trade credit and advances	177	247	-4	-28
Deposit-taking corporations	-10	-	-8	-
Short term	-10	-	-8	-
Other sectors (d)	186	247	4	-28
Short term	186	247	4	-28
Other accounts receivable/payable	116	-162	196	24
Central Bank	-	-162	-	24
Short term (e)	-	-162	-	24
Deposit-taking corporations	116	-	196	-
Short term	116	-	196	-
Special Drawing Rights	-	-	-	-
Reserve Assets	-1,002		337	
Monetary gold	-103		-14	
Special Drawing Rights	-3		6	
Reserve position in the IMF	-		-	
Other reserve assets	-895		346	
Currency and deposits	-1,011		361	
Claims on monetary authorities	466		-174	
Claims on other entities	-1,477		535	
Securities	122		-19	
Debt securities	122		-19	
Long term	122		-19	
Other Claims	-6		3	
Financial Account (net)	-3,378		-2,432	
Memorandum Items				
Long term loans to the government (net)		557		-97
Inflows (Disbursements)		2,328		1,565
Project Loans		1,203		1,565
Foreign Currency Term Financing Facilities		1,000		-
Programme Financing Loans		125		-
Repayments		1,771		1,662

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

Source: Central Bank of Sri Lanka

Table 5.10
Major Projects Financed with Foreign Borrowings during 2019

Lender and Project	Amount Disbursed US$ million
Government Projects - Total	**1,565**
of which;	
The Export - Import Bank of China	**637**
of which;	
Construction of Outer Circular Highway Project - Phase III from Kerawalapitiya to Kadawatha	169
Construction of Extension of Southern Expressway, Section 1 from Matara to Beliatta	164
Construction of Extension of Southern Expressway, Section 2 from Beliatta to Wetiya	71
Construction of Extension of Southern Expressway, Section 4 from Mattala to Hambantota via Andarawewa	58
Hambantota Port Development Project - Phase II	46
Asian Development Bank	**280**
of which;	
Second Integrated Road Investment Programme - Tranche 1	53
Small and Medium Enterprises Line of Credit - Additional Financing	38
Intergrated Road Investment Programme - Tranche 4	27
Rooftop Solar Power Generation Project	19
Government of Japan	**178**
of which;	
New Bridge Construction Project over the Kelani River	68
Habarana-Veyangoda Transmission Line Project	28
Landslide Disaster Protection Project of the National Road Network	20
Greater Colombo Transmission and Distribution Loss Reduction Project	14
Kandy City Wastewater Management Project	13
Establishment of Light Rail Transit Project System in Colombo	11
International Development Association	**116**
of which;	
Water Supply and Sanitation Improvement Project	24
Climate Resilience Improvement Management	15
Agriculture Sector Modernisation Project	11
Additional Financing for Climate Resilience Improvement Project	10
International Bank for Reconstruction & Development	**62**
of which;	
Primary Health Care System Strengthening Project	25
Metro Colombo Urban Development Project	25
Co-op Centrale Raiffeisen-Boerenleenbank	**57**
of which;	
Reconstruction of Rural Bridges	36
Calyon Credit Agricole CIB	**48**
Implementation of Greater Matale Water Supply Project	34
Implementation of Kelani Right Bank Water Supply Project - Phase II	14
Deutsche Bank AG	**42**
of which;	
Reconstruction of Rural Bridges	38
China Development Bank Corporation	**40**
of which;	
Improvement and Rehabilitation of Priority Roads Project 3 - Phase II	20
Improvement and Rehabilitation of Priority Roads Project 3 - Phase I	14

Source: External Resources Department of Ministry of Finance, Economic and Policy Development

Net inflows to the government, in the form of foreign loans, recorded a decline in 2019. Accordingly, the foreign loan flows to the government recorded a net outflow of US dollars 97 million in 2019 compared to a net inflow of US dollars 557 million in 2018. This net outflow was a result of foreign loan repayments of US dollars 1,662 million and foreign loan inflows of US dollars 1,565 million during the year. Major project loan inflows to the government included loans obtained for the Construction of Outer Circular Highway Project Phase III from Kerawalapitiya to Kadawatha, Construction of Extension of Southern Expressway Section 1 from Matara to Beliatta and Construction of Extension of Southern Expressway Section 2 from Beliatta to Wetiya Project. There was no inflow in the form of a foreign currency term financing facility in 2019, while the government repaid US dollars 473 million of foreign currency term financing facility obligations in 2019 compared to US dollars 613 million in 2018.

Foreign loans obtained by deposit taking corporations, private corporations and SOBEs recorded a net repayment, while loan inflows to the Central Bank increased in 2019. Net foreign loan inflows to deposit taking corporations, which consist of licensed commercial banks (LCBs), licensed specialised banks (LSBs) and licensed finance companies (LFCs), recorded a net repayment of US dollars 281 million in 2019 compared to a net inflow of US dollars 697 million in 2018. Further, private corporations and SOBEs, classified under the other sectors in the financial account of the BOP, recorded a net repayment of foreign loans amounting to US dollars 226 million in 2019. Total foreign loan inflows to private corporations and SOBEs amounted to US dollars 450 million, with all loan inflows being received by the private sector during the year. Of foreign loan repayments of US dollars 676 million, private corporations' repayments amounted to US dollars 465 million during 2019. Meanwhile, foreign loans to the Central Bank recorded a net inflow of US dollars 327 million with the receipt of the sixth and seventh tranches under the IMF-EFF during the year.

Trade Credit and Advances and Other Accounts Receivable / Payable

Trade credit and advances received by residents as well as trade credit and advances given to non-residents decreased in 2019. The net incurrence of liabilities of trade credit and advances declined by US dollars 28 million in 2019, compared to an increase of US dollars 247 million in 2018. Meanwhile, the net acquisition of assets on trade credit and advances, which represents trade credit and advances given by Sri Lankan exporters to their overseas trading partners and deposit taking corporations, reduced by US dollars 4 million in 2019, compared to an increase of US dollars 177 million in 2018. Further, other accounts payable, mainly consisting of Asian Clearing Union (ACU) liabilities managed by the Central Bank, recorded a marginal increase of US dollars 24 million, while other accounts receivable of LCBs recorded a net increase of US dollars 196 million during the year.

5.7.4 Reserve Assets

Transactions related to reserve assets recorded an increase in 2019. Transactions of reserve assets increased by US dollars 337 million in 2019, on a net basis, compared to the decline of US dollars 1,002 million recorded in 2018. During the year, currency and deposits of the Central Bank increased by US dollars 361 million, while the Central Bank's investment in foreign debt securities declined by US dollars 19 million. Further, the Central Bank reduced its monetary gold holdings by net sales of US dollars 14 million during 2019.

5.8 Overall Balance

The overall balance, which is equal to the change in net international reserves, recorded a surplus in 2019 in contrast to the deficit recorded in 2018. Significant inflows to the financial account during the year in terms of proceeds of the ISBs resulted in an increase in net international reserves, amounting to US dollars 5,871 million at end 2019, from US dollars 5,495 million at end 2018. Consequently, the overall balance recorded a surplus of US dollars 377 million in 2019, in comparison to the deficit of US dollars 1,103 million recorded in 2018.

5.9 International Investment Position

In terms of the International Investment Position (IIP), Sri Lanka's external liability position as well as the asset position increased at end 2019 from end 2018. The IIP records the value and composition of the country's stock position in external assets and liabilities with the rest of the world. The stock position of external assets increased to US dollars 12,985 million at end 2019 from US dollars 12,098 million at end 2018, primarily due to the increase in gross official reserves. Gross official reserves stood at US dollars 7.6 billion at end 2019 in comparison to US dollars 6.9 billion at end 2018. Asset position in direct investments, which reflects the cumulative FDIs made by Sri Lankan companies abroad, also increased during the year. There was an increase in other accounts receivable of deposit taking corporations, while a modest decline was recorded in terms of trade credit and advances and currency and deposit assets of deposit taking corporations. Sri Lanka's total foreign liability position also increased significantly by around US dollars 3,862 million by end 2019 to US dollars 65,252 million, compared to US dollars 61,390 million at end 2018. This increase can be mainly attributed to the increase in outstanding foreign liabilities of the government due to the net increase in outstanding liabilities of ISBs, increase in outstanding liability position of the Central Bank and an increase in outstanding currency and deposits

Table 5.11
International Investment Position

US$ million (End period position)

Item	2018 (a) Assets	2018 (a) Liabilities	2019 (b) Assets	2019 (b) Liabilities
Direct Investment (c)	**1,433**	**12,575**	**1,497**	**13,058**
Equity and investment fund shares	1,414	8,166	1,466	8,280
Debt instruments	19	4,410	31	4,778
Portfolio Investment	**...**	**13,617**	**...**	**16,998**
Equity and investment fund shares		812		1,056
Other sectors		812		1,056
Debt securities (d)	...	12,805	...	15,942
Deposit-taking corporations	...	249	...	-
Long term	...	249	...	-
General government		12,385		15,768
Short term		60		119
Long term		12,326		15,649
Other sectors		171		174
Long term		171		174
Financial Derivatives	**-**	**-**	**-**	**-**
Other Investment	**3,746**	**35,198**	**3,846**	**35,196**
Currency and Deposits	**864**	**1,581**	**771**	**1,748**
Central Bank		...		...
Short term		...		...
Deposit-taking corporations	864	1,580	771	1,748
Short term	357	1,580	363	1,748
Long term	507		408	
Loans		**30,450**		**30,288**
Central Bank		992		1,315
Credit and loans with the IMF		992		1,315
Deposit-taking corporations		5,530		5,249
Short term		3,772		3,771
Long term		1,758		1,478
General government		19,626		19,609
Long term		19,626		19,609
Other sectors (e)		4,302		4,116
Long term		4,302		4,116
Trade Credit and Advances	**1,182**	**2,184**	**1,178**	**2,156**
Deposit-taking corporations	100		92	
Short term	100		92	
Other sectors (f)	1,082	2,184	1,086	2,156
Short term	1,082	2,184	1,086	2,156
Other Accounts Receivable/Payable	**1,700**	**432**	**1,896**	**456**
Central Bank (g)		432		456
Short term		432		456
Deposit-taking corporations	1,700		1,896	
Short term	1,700		1,896	
Special Drawing Rights		**550**		**547**
Reserve Assets	**6,919**		**7,642**	
Monetary gold	819		955	
Special Drawing Rights	1		7	
Reserve position in the IMF	67		66	
Other reserve assets	6,032		6,614	
Currency and deposits	2,026		2,387	
Claims on monetary authorities	2,126		1,952	
Claims on other entities	-100		435	
Securities	4,006		4,227	
Debt securities	4,006		4,227	
Total Assets / Liabilities	**12,098**	**61,390**	**12,985**	**65,252**
Net International Investment Position		**-49,292**		**-52,266**
Memorandum Items				
IIP- Maturity-wise breakdown	12,098	61,390	12,985	65,252
Short term	6,151	8,841	6,846	9,306
Long term	5,947	52,548	6,139	55,946

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

Source: Central Bank of Sri Lanka

liability position of deposit taking corporations. However, there was a decline in the outstanding liability position of foreign loans by the government, deposit taking corporations, private corporations and SOBEs. Accordingly, Sri Lanka's net international investment position, which is the difference between Sri Lanka's total asset and liability positions with non-residents, recorded a higher net liability position of US dollars 52,266 million at end 2019, compared to US dollars 49,292 million at end 2018.

5.9.1 Direct Investment Position

The direct investment asset position and the liability position increased in 2019. The direct investment liability position increased to US dollars 13,058 million at end 2019, compared to US dollars 12,575 million at end 2018, with the direct investment inflows recorded during the year. Despite a net positive FDI flow, most FDI companies listed in the CSE recorded notable valuation losses, as a result of significantly low market prices during the year. However, some publicly listed companies and private BOI companies recorded a significant increase in reinvested earnings, resulting in a moderation of the impact of market price valuation losses. Based on immediate country of investment, China, India, Netherlands, Singapore and Malaysia were the top five countries with the highest direct investment liability stock positions at end 2019. Meanwhile, direct investment abroad by Sri Lankan residents recorded an outstanding asset position of US dollars 1,497 million by end 2019, an increase of 4.5 per cent from the previous year.

5.9.2 Portfolio Investment Position

The portfolio investment liability position in the IIP increased significantly by end 2019. The portfolio investment liability position increased substantially to US dollars 16,998 million at end 2019 compared to US dollars 13,617 million at end

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2018. Despite the maturity of two ISBs, the maturity of an international bond issued by deposit taking corporations and outflows of foreign investments from the Treasury bond market, the outstanding debt securities liability position increased as a result of two issuances of ISBs amounting to US dollars 4.4 billion during the year. The outstanding position of Treasury bills and Treasury bonds held by non residents stood at US dollars 525 million at end 2019. The portfolio investment equity position, which accounts for the outstanding equity liability investments by foreign investors in CSE companies that are not direct investments, increased to US dollars 1,056 million by end 2019 from US dollars 812 million at end 2018, mainly with a resurgence in market prices of some companies in the CSE towards end 2019, after the presidential election. Meanwhile, the outstanding debt security liability position of deposit taking corporations was settled in full during the year with the maturity of the remaining international bond amounting to US dollars 250 million issued by the National Savings Bank.

5.9.3 Other Investment Position

Currency and Deposits

The currency and deposits asset position declined, while the liability position recorded an increase by end 2019. The currency and deposit liability position increased from US dollars 1,581 million at end 2018 to US dollars 1,748 million at end 2019, mainly due to the increase in deposit liabilities of non residents in the banking sector. The currency and deposit asset position, which entirely consists of currency and deposit assets of deposit taking corporations, declined to US dollars 771 million at end 2019 from US dollars 864 million at end 2018.

Loans

The foreign loan liability position recorded a marginal decline by end 2019. Despite the increase in foreign loan liability position of the Central Bank, the total outstanding loan liabilities declined due to the reduction in the foreign loan liability position of the government, deposit taking corporations, private sector corporations and SOBEs. Accordingly, the foreign loan liability position stood at US dollars 30,288 million at end 2019 compared to US dollars 30,450 million at end 2018. The foreign loan liability position of the Central Bank increased with the receipt of two tranches of the IMF-EFF facility in May and November 2019. The outstanding loan liability position of the private sector decreased marginally with a decline in foreign loans to some major corporates and BOI companies. The government's foreign loan liability position declined marginally with the moderation of loan inflows amidst continued repayments of foreign project loans and foreign currency term financing facilities during the year. The decline in the foreign loan liability position of deposit taking corporations was a result of the reduction in long term foreign loans. Further, the foreign loan liability position of SOBEs also declined as a result of debt repayments and the absence of new foreign loan disbursements during 2019.

Trade Credit and Advances

Both liability and asset positions of trade credit and advances declined at end 2019. The outstanding trade credit and advances liability position, which consists of trade credit and advances of the private sector and SOBEs, decreased from US dollars 2,184 million at end 2018 to US dollars 2,156 million at end 2019, mainly due to the decrease in outstanding trade credits of the Ceylon Petroleum Corporation (CPC). Meanwhile, the outstanding asset position of trade credit and advances, which reflects the trade credit and advances given by deposit taking corporations and the private sector also decreased marginally to US dollars 1,178 million at end 2019 from US dollars 1,182 million at end 2018.

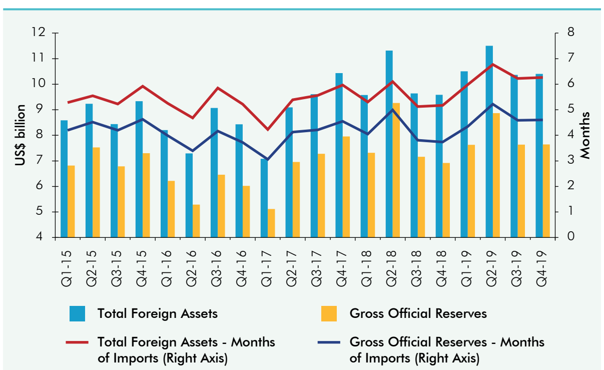
Other Accounts Receivable / Payable and Special Drawing Rights

The outstanding position of other accounts receivable as well as other accounts payable increased in 2019. The outstanding position of other accounts receivable of deposit taking corporations increased to US dollars 1,896 million by end 2019 from US dollars 1,700 million at end 2018. Meanwhile, the outstanding position of other accounts payable increased marginally to US dollars 456 million at end 2019, with an increase in ACU related liabilities of the Central Bank. Further, the outstanding Special Drawing Rights (SDR) liability position declined marginally to US dollars 547 million at end 2019, with the movements in the exchange rate.

5.9.4 Reserve Asset Position

Supported by higher inflows to the financial account, Sri Lanka's gross official reserve asset position increased by end 2019. Gross

Figure 5.12
Quarterly Gross Official Reserves and Total Foreign Assets



Source : Central Bank of Sri Lanka

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

(End period position)

	US$ million				
	2015	2016	2017	2018	2019 (a)
1. Government foreign assets	470	289	488	817	386
2. Central Bank foreign assets	6,834	5,730	7,470	6,102	7,256
3. Gross official reserves (1+2)	7,304	6,019	7,959	6,919	7,642
4. Foreign assets of deposit-taking corporations	2,033	2,414	2,478	2,664	2,760
5. Total foreign assets (3+4) (b)	9,337	8,433	10,436	9,583	10,402
6. Reserve related liabilities (c)	2,275	1,490	1,361	1,425	1,771
7. Net International Reserves (NIR) (3-6)	5,029	4,529	6,597	5,495	5,871
8. Overall balance (d)	-1,489	-500	2,068	-1,103	377
9. Gross official reserves in months of					
9.1 Import of goods	4.6	3.8	4.6	3.7	4.6
9.2 Import of goods and services	3.8	3.1	3.8	3.1	3.7
10. Total foreign assets in months of					
10.1 Import of goods	5.9	5.3	6.0	5.2	6.3
10.2 Import of goods and services	4.9	4.3	4.9	4.3	5.1

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

Source: Central Bank of Sri Lanka

official reserves increased to US dollars 7.6 billion by end 2019 from US dollars 6.9 billion at end 2018. Despite the repayment of two ISBs and other debt servicing obligations, the receipt of the proceeds of two new ISBs, the receipt of the two tranches of the IMF - EFF and the purchase of foreign exchange by the Central Bank from the domestic foreign exchange market, primarily contributed to enhance the gross official reserve position by end 2019. In addition, foreign exchange swap arrangements with domestic banks of US dollars 366 million were retired during the year, improving the quality of reserves. The foreign exchange swap position at end 2019 amounted to US dollars 357 million. The country's gross official reserves at end 2019 were sufficient to finance 4.6 months of imports while covering 56.1 per cent of the country's short term debt and liabilities at end 2019, compared to 3.7 months of imports and 50 per cent short term debt and liabilities at end 2018. Meanwhile, total foreign assets, consisting of gross official reserves and foreign assets of commercial banks, also increased from US dollars 9.6 billion at end 2018 to US dollars 10.4 billion by end 2019. Total foreign assets were sufficient to finance 6.3 months of imports.

5.10 External Debt and Debt Servicing

5.10.1 External Debt

Sri Lanka's total external debt rose in 2019 mainly with the increase in the external debt of the general government. Total external debt of the country increased by US dollars 3.5 billion during the year to US dollars 55.9 billion by end 2019. The outstanding liability position of ISBs, based on market value, amounted to US dollars 15.2 billion at end 2019 compared to US dollars 11.6 billion at end 2018. This was a net result of the government raising US dollars 4.4 billion through the two issuances of ISBs, while repaying two ISBs amounting to US dollars 1.5 billion during the year. However, the outstanding Treasury bonds held by non residents declined with net outflows of foreign investment from the government securities market, although foreign investment in Treasury bills recorded a marginal increase during the year. Total outstanding foreign loans of the government recorded a marginal decline, due to higher repayments of historical outstanding foreign loan liabilities compared to the disbursements in 2019. Sri Lanka's outstanding external debt position continued to increase with the rising outstanding external debt of the government, presenting the most significant vulnerability in the external sector.

The outstanding liability position of the Central Bank increased while the outstanding debt of deposit taking corporations, private corporations and SOBEs declined in 2019. The external liability position of the Central Bank

Table 5.13
Outstanding External Debt Position

US$ million
(End period position)

Item	2018(a)	2019(b)
General Government	**32,011**	**35,377**
Short term	**60**	**119**
Debt securities	60	119
Treasury bills (c)	60	119
Long term	**31,952**	**35,258**
Debt securities	12,326	15,649
Treasury bonds (c)	728	406
Sri Lanka Development bonds (d)	4	5
International sovereign bonds (e)	11,594	15,238
Loans	19,626	19,609
Central Bank	**1,975**	**2,318**
Short term	**432**	**456**
Other accounts payable	432	456
Asian Clearing Union liabilities	432	456
Long term	**1,542**	**1,862**
Special Drawing Rights (SDRs) allocation	550	547
Loans	992	1,315
Credit and loans with the IMF	992	1,315
Extended Fund Facility	992	1,315
Deposit-taking Corporations	**7,359**	**6,997**
Short term	**5,353**	**5,519**
Currency and deposits (f)	1,580	1,748
Commercial banks	1,580	1,748
Loans	3,772	3,771
Commercial banks	3,772	3,771
Long term	**2,007**	**1,478**
Debt securities (e)	249	-
Other deposit-taking corporations	249	-
Loans	1,758	1,478
Commercial banks	1,643	1,412
Other deposit-taking corporations	115	66
Other Sectors (g)	**6,657**	**6,446**
Short term	**2,184**	**2,156**
Trade credit and advances (h)	2,184	2,156
Long term	**4,472**	**4,290**
Debt securities (e)	171	174
Loans	4,302	4,116
Private sector corporations	2,232	2,212
State owned business enterprises and public corporations	2,070	1,904
Direct Investment: Intercompany Lending (i)	**4,410**	**4,778**
Gross External Debt Position	**52,412**	**55,916**
As a Percentage of GDP		
Gross external debt	59.2	66.6
Short term debt	9.1	9.8
Long term debt	50.1	56.8
As a Percentage of Gross External Debt		
Short term debt	15.3	14.8
Long term debt	84.7	85.2
Memorandum Items		
Debt Securities-Sectorwise Breakdown at Face Value	**13,448**	**15,803**
General government	13,023	15,628
Treasury bills	65	131
Treasury bonds	804	442
Sri Lanka development bonds	4	5
International sovereign bonds	12,150	15,050
Deposit-taking corporations, except the Central Bank	250	-
Licensed specialised banks	250	-
Other sectors	175	175

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

Source: Central Bank of Sri Lanka

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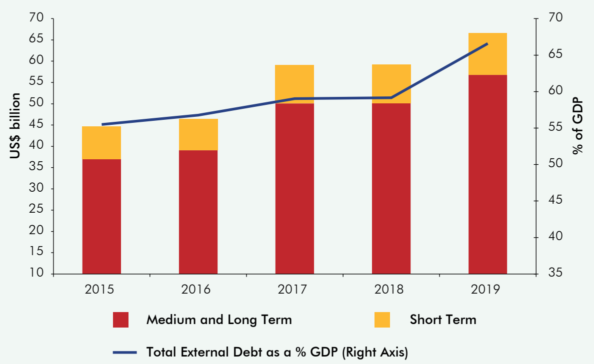
Figure 5.13
External Debt



Source : Central Bank of Sri Lanka

increased with the receipt of the two IMF-EFF tranches and with marginal increase in liabilities with the ACU. The external liability position of deposit taking corporations declined with repayment of a maturing international bond by the National Savings Bank as well as a decrease in outstanding foreign loans by commercial banks, despite an increase in currency and deposit liabilities.The outstanding foreign loans of the private sector and SOBEs declined with repayments of existing foreign loans. Further, intercompany borrowing of DIEs recorded an increase during the year, with some major DIEs receiving intercompany loans and shareholder advances.

The total outstanding external debt of the country as a percentage of GDP increased further during the year. The total outstanding external debt as a percentage of GDP stood at 66.6 per cent at end 2019, compared to 59.2 per cent at end 2018, as a result of a notable increase in outstanding external debt and slower growth in nominal GDP during 2019. The outstanding external debt position of the government, out of the total external debt position, amounted to 63.3 per cent at end 2019, compared to 61.1 per cent at end 2018. Despite the increase in Sri Lanka's external debt, both in nominal terms and as a percentage of GDP, there was an improvement in the debt maturity profile, with the long term maturity increasing from 50.1 per cent of GDP at end 2018 to 56.8 per cent of GDP by end 2019.

5.10.2 Foreign Debt Service Payments

Foreign debt service payments, which consist of capital repayments and interest payments on Sri Lanka's external debt, declined marginally in 2019. Capital repayments decreased marginally from US dollars 4,188 million in 2018 to US dollars 4,119 million in 2019, of which the general government accounted for US dollars 3,176 million. The repayment of two ISBs of US dollars 1.5 billion that matured during the year mainly contributed to the increased debt amortisation by the government. The government also repaid US dollars 1,189 million of foreign loans and US dollars 473 million of obligations under foreign currency term financing facilities. Further, deposit taking corporations repaid an international bond of US dollars 250 million, which matured during the year. Meanwhile, capital repayments of foreign loans by the private sector and SOBEs declined in 2019 compared to 2018. Interest payments decreased, albeit marginally, during the year, to US dollars 1,653 million from US dollars 1,678 million in 2018. There was an increase in interest payments on coupon payments of ISBs, while there was a modest increase in interest payments on foreign loans by the government. However, interest payments on foreign investments in government Treasury bonds declined during the year, with the decline in outstanding stock of Treasury bonds, as a result of net outflows of foreign investments from the Treasury bond market. Further, coupon payments on international bonds issued by the government increased with the increase in the outstanding stock of ISBs. Since earnings from merchandise exports and services were significantly less in 2019 compared to the previous year, total external debt

Table 5.14
External Debt Service Payments

Item	US$ million					Rs. million				
	2015	2016	2017	2018 (a)	2019 (b)	2015	2016	2017	2018 (a)	2019 (b)
1. Debt Service Payments	**4,772**	**4,461**	**4,566**	**5,866**	**5,773**	**648,541**	**648,315**	**695,690**	**954,937**	**1,038,911**
1.1 Amortisation	**3,580**	**3,243**	**3,167**	**4,188**	**4,119**	**487,275**	**472,270**	**482,750**	**682,359**	**743,171**
General Government	1,976	1,040	1,354	1,815	3,176	265,662	151,236	206,531	294,845	573,830
Project Loans	798	876	1,320	1,771	1,662	107,536	127,396	201,430	287,381	295,992
Debt securities	1,178	164	34	45	1,514	158,126	23,840	5,101	7,464	277,838
Central Bank	907	1,555	635	-	-	125,686	226,118	96,584	-	-
IMF	507	455	235	-	-	68,775	65,956	35,601	-	-
Swap and other liabilities	400	1,100	400	-	-	56,911	160,162	60,983	-	-
Private sector and deposit taking corporations	698	648	1,178	1,943	926	95,928	94,916	179,635	314,024	166,281
Foreign loans	553	559	559	593	676	76,199	81,944	85,242	96,640	121,737
Debt securities	-	-	500	1,350	250	-	-	76,169	217,384	44,543
Intercompany debt of direct investment enterprises	145	88	119	430	17	19,729	12,972	18,225	73,490	3,061
1.2 Interest Payments	**1,192**	**1,219**	**1,399**	**1,678**	**1,653**	**161,266**	**176,045**	**212,419**	**270,189**	**295,743**
General Government	870	862	1,063	1,280	1,389	117,496	124,042	161,458	207,905	248,376
Project Loans	266	264	332	425	430	36,024	38,440	50,652	68,847	76,754
Debt securities	604	597	731	855	959	81,472	85,602	110,806	139,057	171,622
Central Bank	13	10	16	30	37	1,693	1,436	2,119	4,834	6,618
IMF	10	8	12	24	28	1,395	1,179	1,897	3,833	4,940
Swap and other liabilities	2	2	3	6	9	298	257	222	1,001	1,677
Private sector and deposit taking corporations	309	347	311	354	216	42,077	50,567	47,433	57,421	38,745
Foreign loans	148	179	169	242	199	20,128	26,121	25,775	39,479	35,613
Debt securities	159	159	142	112	18	21,779	23,186	21,658	17,943	3,131
Intercompany debt of direct investment enterprises	1	9	9	15	11	170	1,260	1,409	2,388	2,005
2. Earnings from Export of Goods and Services	**16,943**	**17,448**	**19,084**	**20,264**	**19,414**					
3. Receipts from Export of Goods, Services, Income and Current Transfers	**24,078**	**24,835**	**26,432**	**27,535**	**26,392**					
4. Debt Service Ratio										
4.1 As a percentage of 2 above										
Overall Ratio	28.2	25.6	23.9	28.9	29.7					
Excluding IMF transactions	25.1	22.9	22.6	28.8	29.6					
4.2 As a percentage of 3 above										
Overall ratio	19.8	18.0	17.3	21.3	21.9					
Excluding IMF transactions	17.7	16.1	16.3	21.2	21.8					
5. Government Debt Service Payments										
5.1 Government debt service payments (c)	2,846	1,901	2,417	3,095	4,565					
5.2 As a percentage of 1 above	59.6	42.6	52.9	52.8	79.1					

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

Source : Central Bank of Sri Lanka

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service payments as a percentage of the export of merchandise goods and services increased to 29.7 per cent in 2019 from 28.9 per cent in 2018. Further, with the government's external debt representing the major part of the country's debt stock, the government's debt service payments accounted for 79 per cent of total debt service payments in 2019.

High foreign currency debt service obligations, including ISB maturities and capital repayments of foreign currency term financing facilities falling due over the medium term, remain a major challenge to the sustainability of the country's external debt. Increased reliance on foreign borrowings to finance persistently high budget deficits and large external current account deficits has resulted in annually increasing debt servicing, and thereby continuously raising the need to mobilise external resources. The cost of such borrowings has also increased, with the majority of the government's external borrowings being facilitated through issuances of ISBs. On the other hand, increasing foreign debt service payments cause a net drain in the country's international reserves, which serve as a buffer against external shocks, and the country's ability to manage large volatilities in the domestic foreign exchange market. Therefore, policy initiatives to maintain external debt at sustainable levels should focus on ensuring the sustainability of the current account deficit and the budget deficit in the long run. Although resolving such chronic structural issues may not be possible in the short term, timely and consistent implementation of a medium term policy framework to address these issues with the support of all stakeholders has become an utmost priority.

5.11 Exchange Rate Movements

The Sri Lanka rupee remained broadly stable with a marginal appreciation against the US dollar in 2019. After the sharp depreciation observed in 2018, the currency exhibited a correction in 2019, despite some intermittent volatility as a result of global and domestic developments. The exchange rate strengthened during the first four months of 2019 supported by a significant contraction in the trade deficit and an increase in financial flows, resulting in an appreciation of 4.6 per cent prior to the Easter Sunday attacks. Favourable liquidity conditions in the domestic foreign exchange market that prevailed during this period also enabled the Central Bank to absorb foreign exchange from the market, on a net basis. However, the exchange rate experienced some pressure in the immediate aftermath of the Easter Sunday attacks and again in the latter part of August 2019, reflecting the impact of heightened uncertainties in global markets, which resulted in some unwinding of foreign investment from the government securities market. However, liquidity conditions in the domestic foreign exchange market improved subsequently, helping to stabilise the exchange rate. Consequently, the rupee recorded an appreciation of 0.6 per cent against the US dollar by end 2019. Meanwhile, the Central Bank absorbed US dollars 387.0 million on a net basis

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Table 5.15
Exchange Rate Movements

Currency	In Rupees per unit of Foreign Currency						Percentage Change over Previous Year (a)			
	End Year Rate			Annual Average Rate			End Year		Annual Average	
	2017	2018	2019	2017	2018	2019	2018	2019	2018	2019
Euro	182.49	208.99	203.67	171.73	191.71	200.14	-12.68	2.62	-10.42	-4.21
Indian rupee	2.39	2.61	2.55	2.34	2.38	2.54	-8.72	2.61	-1.47	-6.40
Japanese yen	1.36	1.65	1.67	1.36	1.47	1.64	-18.05	-1.02	-7.58	-10.36
Pound sterling	205.54	231.86	238.46	196.47	216.67	228.20	-11.35	-2.77	-9.32	-5.05
US dollar	152.85	182.75	181.63	152.46	162.54	178.78	-16.36	0.61	-6.20	-9.08
SDR	217.69	253.51	251.17	211.49	229.90	246.97	-14.13	0.93	-8.00	-6.91
Effective Exchange Rate Indices (b) (c)	End Year Index			Annual Average Index			Percentage Change over Previous Year			
							End Year Index		Annual Average Index	
(2017=100)	2017	2018	2019	2017	2018	2019	2018	2019	2018	2019
NEER 24-currencies	97.17	85.81	86.74	100.00	94.05	88.18	-11.69	1.09	-5.95	-6.24
REER 24-currencies	99.34	87.81	89.86	100.00	95.45	90.30	-11.60	2.34	-4.55	-5.40

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

Source: Central Bank of Sri Lanka

during the year 2019 compared to a net supply of US dollars 1,119.7 million in 2018. Reflecting cross currency exchange rate movements, the Sri Lankan rupee appreciated against the Indian rupee (2.6 per cent) and the euro (2.6 per cent) and depreciated against the pound sterling (2.8 per cent) and the Japanese yen (1.0 per cent) by end 2019.

Other major currencies showed mixed movements against the US dollar. Accordingly, at the end of 2019, the Indian rupee (1.9 per cent) and the euro (1.9 per cent) depreciated against the US dollar whilst pound sterling (3.5 per cent) and the Japanese yen (1.6 per cent) appreciated. With the combined effect of the appreciation of the rupee against most major currencies, the Sri Lankan rupee also appreciated against the SDR by 0.9 per cent during the year.

With the spread of the COVID-19 pandemic, the exchange rate experienced significant volatility in the latter part of March 2020. The exchange rate, which remained relatively stable in 2020 up to the second week of March, underwent a significant depreciation thereafter, as experienced by other emerging markets and developing economies. The global economic and financial market uncertainties resulted in significant outflows from the government securities market, while also affecting earnings from tourism, export proceeds and workers' remittances. The exchange rate pressure also exacerbated with speculative market behaviour. Amidst these developments, the government and the Central Bank introduced urgent policy measures in March 2020 to mitigate the pressure in the domestic foreign exchange market, including the suspension of the importation of selected motor vehicles and certain non essential consumer goods for three months. It is expected that the volatility in the exchange rate will subside after the initial market response, but the exchange rate movements in 2020 are likely to remain susceptible to global developments related to the further spread of the pandemic in the period ahead.

5.11.1 Nominal and Real Effective Exchange Rates

During 2019, both the 5-currency and 24-currency Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) indices increased. The NEER indices increased reflecting the nominal appreciation of the Sri Lankan rupee against some major currencies together with the movements in cross currency exchange rates. Accordingly, 5-currency and 24-currency NEER indices increased by 1.48 per cent and 1.09 per cent, respectively, during 2019. Meanwhile, the REER indices, the indicators of Sri

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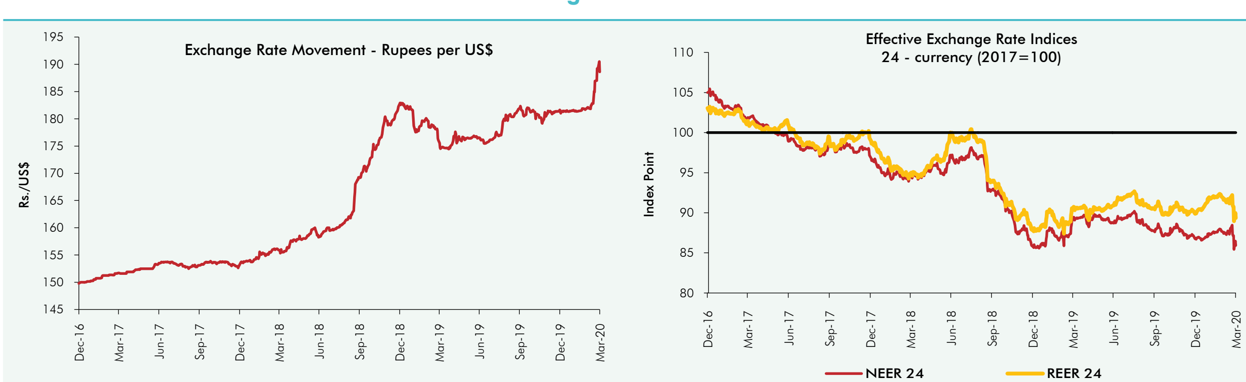
Figure 5.14
Exchange Rate Movements



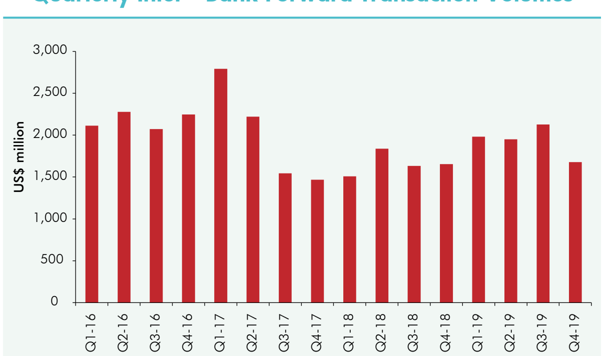
Source : Central Bank of Sri Lanka

Lanka's external competitiveness taking inflation differentials against countries in the basket in addition to the variation in nominal exchange rates into consideration, increased by 2.22 per cent and 2.34 per cent, respectively, for the 5-currency and 24-currency REER indices. However, the REER indices remained below the base year level, supporting the country's trade competitiveness.

5.11.2 Developments in the Domestic Foreign Exchange Market

The volume of transactions in the domestic foreign exchange market increased further in 2019. Accordingly, the total volume of transactions in the domestic foreign exchange market increased significantly during the year to US dollars 19,377 million from US dollars 17,402 million in 2018. The volume of spot transactions increased to US dollars 11,643 million (60.1 per cent of total transactions) in 2019 from US dollars 10,770 million in 2018. Further, the total volume of forward transactions increased to US dollars 7,734 million in 2019 from US dollars 6,632 million in 2018. During 2019, the intervention by the Central Bank in the domestic foreign exchange market resulted in an absorption of US dollars 387 million, on a net basis. This included a supply of US dollars 207 million and an absorption of US dollars 594 million. This was in contrast to the Central Bank supply of foreign exchange liquidity amounting to US dollars 1,677 million and absorption of US dollars 557 million during 2018. The net absorption from the domestic foreign exchange market in 2019 was primarily due to the lower level of outflows from the market with the significant contraction in imports. These conditions enabled the Central Bank to absorb foreign exchange on a net basis during 2019, in spite of volatilities caused by the Easter Sunday attacks and the unwinding of foreign investment from the government securities market. Meanwhile, the Central Bank continued to allow the exchange rate to reflect market fundamentals and intervened in the domestic foreign exchange market only to prevent a sharp volatility of the Sri Lankan rupee. However, the volatile market behaviour in the face of the COVID-19 outbreak required intervention by the Central Bank in the domestic foreign exchange market in the latter part of March 2020.

Figure 5.15
Quarterly Inter - Bank Forward Transaction Volumes



Source : Central Bank of Sri Lanka

5.12 External Sector Outlook

The outlook of the external sector in 2020 is likely to be largely dependent on the global impact of the COVID-19 pandemic and resulting global economic and market developments. The COVID-19 pandemic is likely to result in a significant widening of the current account deficit in 2020. The trade deficit is likely to widen with a significant impact on the global demand for key Sri Lankan exports, even though import expenditure is expected to be lower due to the unprecedented drop in global crude oil prices, the drop in export oriented import demand, the likely moderation in investment goods imports and the policy driven curtailment of vehicle and non-essential imports. The tourism industry is expected to be severely impacted, with an expected unprecedented slowdown in global travel and tourism. The overall impact on the tourism industry depends on the restoration of normalcy in global travel prior to Sri Lanka's peak tourist season in the latter part of 2020. Air passenger transport services will also be impacted with the reduction in global travel, while freight transport services are also expected to decline in line with supply chain breakdowns and reduction in merchandise trade. However, outflows in terms of travel and transport services are also likely to moderate, providing some cushion to the expected deterioration in the services account. The COVID-19 pandemic also impacted some of Sri Lanka's key sources of workers' remittances, including Italy, South Korea and the Middle East. This is likely to result in some deterioration of workers' remittances in 2020. Overall, the current account is likely to worsen significantly in 2020, but the extent of this deterioration will depend on the duration of the pandemic and the policy measures adopted by policymakers globally as well as in Sri Lanka.

The financial account is also likely to be impacted by the COVID-19 pandemic in 2020. Equity inflows in the form of FDI and foreign investments in the CSE are likely to be contracted by the global behaviour of financial markets and investor confidence. However, improving conditions, particularly in China, are likely to result in the restoration of inflows to the Colombo Port City and the Hambantota industrial zone projects. FDI inflows are likely to pick up gradually from the second half of 2020, particularly with the expected political stability after the general elections. Foreign borrowings by the government are expected in the second half of 2020 to meet the possible widening of the fiscal deficit and to honour debt service payments.

High foreign currency debt service payments falling due in 2020 and over the medium term will continue to be a major concern. Annual external debt service payment commitments, including maturing ISBs and capital repayments of foreign currency term financing facilities, falling due in 2020 and beyond amounts to around US dollars 5 billion, on average. In the near term, Sri Lanka could face heightened refinancing risks given global financial market uncertainties and appetite for safe heaven assets. In this context, meeting debt serving requirements for 2020 prudently without resorting to a depletion of official reserves, with the least possible refinancing cost remains a major challenge. Further, maintaining a sustainable current account deficit while attracting a higher level of non-debt creating inflows in the form of FDI over the medium term is of paramount importance in order to keep foreign borrowings at manageable levels and to maintain the country's external debt at sustainable levels.