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Press Release

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External Sector Performance – May 2019

Highlights

- The external sector remained relatively stable in May 2019 supported by a contracting trade deficit.
- In May 2019, the deficit in the trade account narrowed to US dollars 823 million from US dollars 933 million in May 2018.
- The considerable reduction in the trade deficit in May 2019 was due to the decline in import expenditure by 3.9 per cent (year-on-year) and an increase of export earnings by 4.0 per cent (year-on-year).
- Earnings from tourism in May recorded a decline of 70.8 per cent (year-on-year), reflecting the impact of Easter Sunday attacks. However, tourist arrivals in June are expected to have recovered with almost a doubling of the number of arrivals in comparison to May 2019.
- Workers' remittances amounted to US dollars 562 million in May 2019, recording a decline of 3.1 per cent (year-on-year). On a cumulative basis, workers' remittances amounted to US dollars 2,733 million during the first five months of 2019.

The CBSL started publishing a 'Monthly Trade Bulletin', with further information on merchandise trade performance, which can be viewed at Central Bank of Sri Lanka's website under Statistics > Economic Indicators > Monthly Trade Bulletin.

<https://www.cbsl.gov.lk/en/monthly-trade-bulletin>

- The current account recorded a surplus of US dollars 423 million in the first quarter of 2019 as against a deficit of US dollars 587 million recorded in the corresponding period of 2018, mainly driven by the significant contraction of the trade deficit.
- The financial account of the Balance of Payments (BOP) in May was supported by the sixth tranche of the Extended Fund Facility of the International Monetary Fund (IMF-EFF), while foreign investments in government securities recorded a net outflow.
- The country's gross official reserves stood at US dollars 6.7 billion at end May 2019, which was equivalent to 3.9 months of imports. Subsequently, along with the proceeds of the International Sovereign Bond (ISB) of US dollars 2 billion, gross official reserves are estimated to have increased to around US dollars 8.9 billion by end June 2019.

Table 1: Summary of External Sector Performance (a)

Category	May 2018 US\$ mn	May 2019 US\$ mn	Change (%)	Jan-May 2018 US\$ mn	Jan-May 2019 US\$ mn	Change (%)
Exports	924	961	4.0	4,707	4,915	4.4
Imports	1,857	1,784	-3.9	9,622	8,196	-14.8
Trade balance (net)	-933	-823		-4,914	-3,281	
Earnings from tourism	243 (b)	71 (c)	-70.8	1,910 (b)	1,775 (c)	-7.1
Workers' remittances	580	562	-3.1	3,100 (d)	2,733	-11.8
Inflows to the CSE (net) (e)	5	4		53	-20	
Inflows to the Government (gross)	164	121		3,690	3,324	
Treasury bills and bonds	25	60		505	327	
Long term loans	139	61		685	597	
International Sovereign Bonds	-	-		2,500	2,400	
IMF-EFF Receipts	-	164		-	164	
Foreign Direct Investment (f)				336	262	
Overall Balance				1,170	-127	

Sources: Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

(a) Provisional

(b) Revised based on survey results of SLTDA on average stay period and average spending per day estimates for 2018

(c) This provisional estimate may be revised once the SLTDA releases its survey results for 2019

(d) Revised

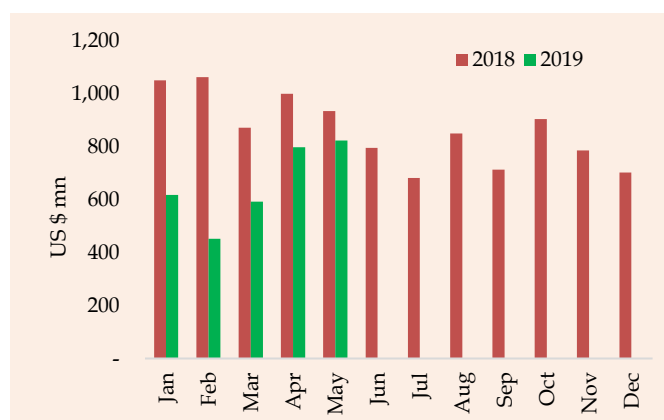
(e) Include secondary and primary market transactions

(f) Data available for the first three months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the BOI and net direct investments to the CSE

Trade Balance and Terms of Trade

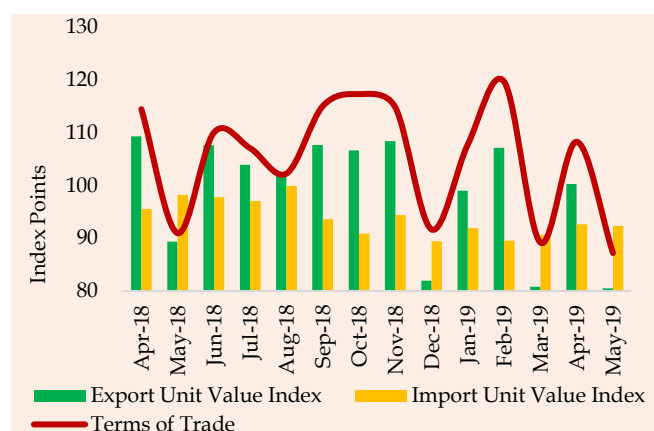
- The deficit in the trade account narrowed significantly in May 2019 in comparison to the corresponding month of 2018 due to the combined effect of an increase in exports and a reduction in imports. Meanwhile, on a cumulative basis, the deficit in the trade account contracted further by US dollars 1,633 million to US dollars 3,281 million during the first five months of 2019 in comparison to the corresponding period of 2018.
- Meanwhile, the terms of trade, which represents the relative price of imports in terms of exports, deteriorated by 4.1 per cent (year-on-year) to 87.2 index points in May 2019 due to the higher rate of decline in export prices in comparison to the decline in import prices. On a cumulative basis, the terms of trade deteriorated by 2.5 per cent (year-on-year) during the first five months of 2019 in comparison to the corresponding period of 2018.

Figure 1: Monthly Trade Deficit (2018 - 2019)



Sources: SLC, CBSL

Figure 2: Terms of Trade (2018 - 2019)



Source: CBSL

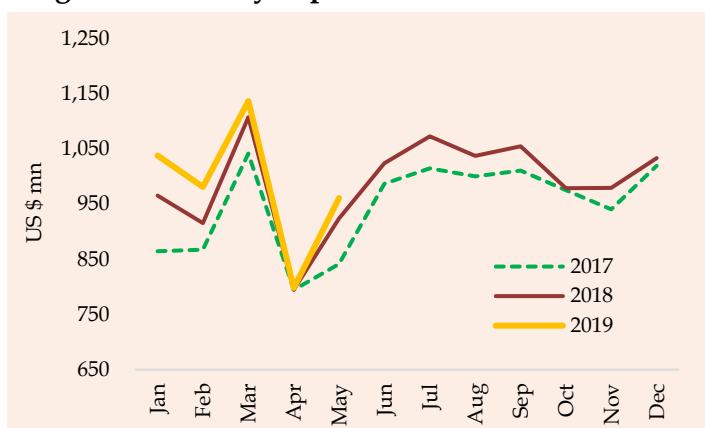
Performance of Merchandise Exports

- Earnings from merchandise exports increased by 4.0 per cent (year-on-year) to US dollars 961 million in May 2019 due to an increase in industrial and agricultural exports.
- Earnings from industrial exports increased in May 2019 mainly due to the improved performance in textiles and garments and rubber product exports. Earnings from textiles and garment exports increased in May 2019 benefiting from higher demand for garment exports from both the traditional markets ie. the USA and the EU and non-traditional markets. Accordingly, earnings from garment exports to the EU market increased by 9.5 per cent in May 2019 driven by high demand from the Netherlands,

Ireland, Germany and the UK. Further, reflecting the higher performance in all sub categories, export earnings from rubber products increased in May 2019. In addition, export earnings from animal fodder, base metals and articles, machinery and mechanical appliances, and gems, diamonds and jewellery contributed towards the increase in industrial exports in May 2019. However, earnings from petroleum product exports declined due to the combined impact of lower export volumes and average prices of bunker and aviation fuel. Further, export earnings from leather, travel goods and footwear, food, beverages and tobacco, and transport equipment declined in May 2019 in comparison to May 2018.

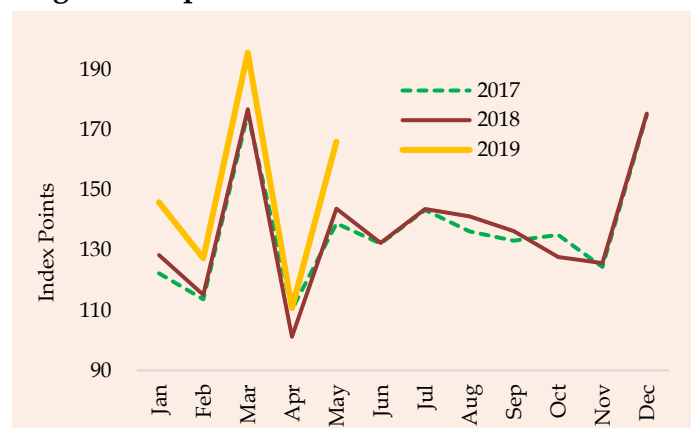
- Earnings from agricultural exports increased, on a year-on-year basis, in May 2019 driven by improved performance in earnings from tea and coconut exports. Export earnings from tea increased for the first time since April 2018 due to higher export volumes despite lower average export prices when compared with May 2018. Further, export earnings from coconut rose notably during the month mainly due to high export volumes of all sub categories of coconut products. However, export earnings from spices decreased mainly driven by lower export volumes of cinnamon and pepper. Export earnings from seafood and minor agricultural products also declined due to the combined impact of lower export volumes and average prices in May 2019.
- Export earnings from mineral exports declined in May 2019 due to the lower performance in all sub categories.
- The export volume index in May 2019 increased by 15.5 per cent while the export unit value index decreased by 9.9 per cent, indicating that the growth in exports was entirely driven by the increased volume when compared with May 2018.

Figure 3: Monthly Export Performance



Sources: SLC, CBSL

Figure 4: Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	May 2018 (US\$ mn)	May 2019 (US\$ mn)	Change (%)	Jan-May 2018 (US\$ mn)	Jan-May 2019 (US\$ mn)	Change (%)
1. Industrial exports	709.7	741.3	4.5	3,632.9	3,853.2	6.1
Food, beverages and tobacco	38.5	37.2	(3.5)	193.6	202.3	4.5
Animal fodder	7.5	11.0	47.3	45.7	51.4	12.5
Textiles and garments	398.3	424.2	6.5	2,065.5	2,256.0	9.2
o/w Garments	367.8	391.6	6.4	1,931.4	2,098.5	8.7
Textiles	21.9	23.3	6.3	94.9	114.6	20.7
Other made up textile articles	8.5	9.4	10.2	39.2	42.9	9.5
Rubber products	68.6	77.2	12.5	349.1	363.1	4.0
Gems, diamonds and jewellery	23.1	24.8	7.5	129.7	131.1	1.0
Machinery and mechanical appliances	36.2	38.1	5.4	174.9	172.2	(1.6)
Transport equipment	7.9	7.0	(10.9)	42.4	39.7	(6.5)
Petroleum products	46.1	39.5	(14.3)	219.3	206.4	(5.9)
Chemical products	14.3	15.3	7.0	66.6	72.4	8.8
Wood and paper products	10.6	11.0	4.1	58.0	59.9	3.4
Printing industry products	1.1	1.9	68.7	6.4	21.4	236.7
Leather, travel goods and footwear	12.6	8.4	(33.0)	65.0	49.2	(24.4)
Plastics and articles thereof	5.7	5.8	0.7	31.8	30.3	(4.7)
Base metals and articles	14.5	17.5	20.7	61.9	76.9	24.2
Ceramic products	2.5	2.1	(18.1)	11.8	11.3	(4.9)
Other	22.2	20.2	(9.0)	111.2	109.7	(1.4)
2. Agricultural exports	209.6	215.9	3.0	1,052.9	1,040.6	(1.2)
Tea	121.2	125.6	3.6	599.3	571.8	(4.6)
Rubber	2.3	2.4	1.6	16.5	13.3	(19.5)
Coconut	24.2	32.2	33.4	125.1	143.9	15.0
Spices	26.0	22.6	(12.8)	122.0	119.1	(2.4)
Vegetables	2.1	2.8	36.2	10.8	13.6	26.5
Unmanufactured tobacco	2.0	2.6	26.9	13.3	13.0	(1.9)
Minor agricultural products	10.5	9.1	(13.7)	51.5	43.7	(15.1)
Seafood	21.2	18.6	(12.4)	114.5	122.2	6.7
3. Mineral exports	3.2	2.6	(19.9)	13.5	13.9	2.6
4. Unclassified exports	1.3	1.3	(6.0)	8.1	7.6	(6.4)
Total exports	923.8	961.0	4.0	4,707.5	4,915.3	4.4

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

(a) Provisional

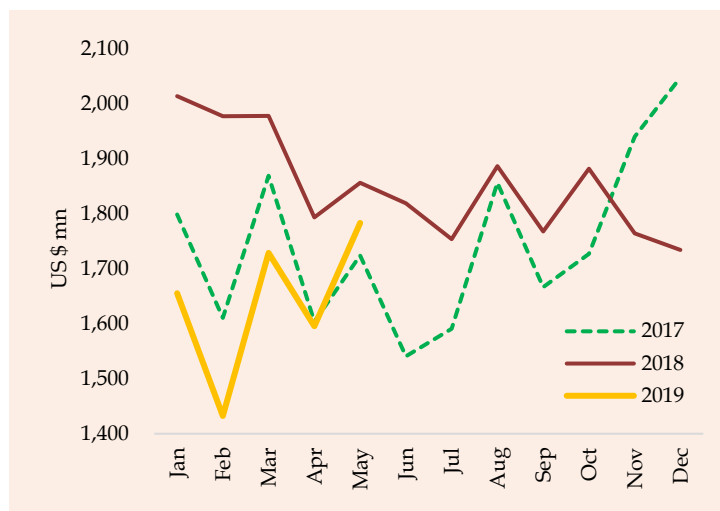
Performance of Merchandise Imports

- Expenditure on merchandise imports declined by 3.9 per cent to US dollars 1,784 million, on a year-on-year basis, in May 2019, recording a decline for the seventh consecutive month. This decline was due to lower imports of consumer goods, particularly, personal vehicles, despite an increase recorded in investment and intermediate goods imports.
- Expenditure on consumer goods imports declined significantly in May 2019, mainly due to lower imports of non-food consumer goods. Under non-food consumer goods imports, import expenditure on personal motor vehicles continued to decrease significantly since December 2018, on a year-on-year basis, owing to the reduction reported in importation of hybrid and electric motor vehicles and motor cars with less than 1000cc engine capacity, reflecting the lag effect of policy measures introduced on importation of vehicles during the second half of 2018 and the increase in excise duties on selected motor vehicles in the 2019 Budget. However, expenditure on food and beverages imports increased driven by imports of seafood such as canned fish and dairy products such as milk powder in May 2019 in comparison to May 2018.
- Imports of intermediate goods increased marginally in May 2019 for the first time since November 2018, mainly driven by higher fuel imports. Import expenditure on fuel increased substantially due to higher import volumes of refined petroleum and coal despite lower average import prices. In contrast, expenditure on crude oil imports declined due to lower average prices as well as a marginal decline in the import volume. Further, expenditure on textiles and textile articles led by fibers and yarn also increased during the period concerned. However, import expenditure on wheat and maize declined mainly due to the reduced wheat import volume in May 2019. In addition, expenditure on base metals, plastic and articles thereof and chemical product imports also declined in May 2019 when compared with the corresponding month of the previous year.
- Expenditure incurred on investment goods imports increased in May 2019, mainly due to higher imports of building materials and machinery and equipment. Imports of building materials increased mainly driven by higher imports of articles of iron and steel as well as machinery and equipment led by transmission apparatus and office machines. However, reflecting lower imports of tankers and bowsers, the import of

vehicles used for commercial purposes categorised under transport equipment declined in May 2019 when compared with May 2018.

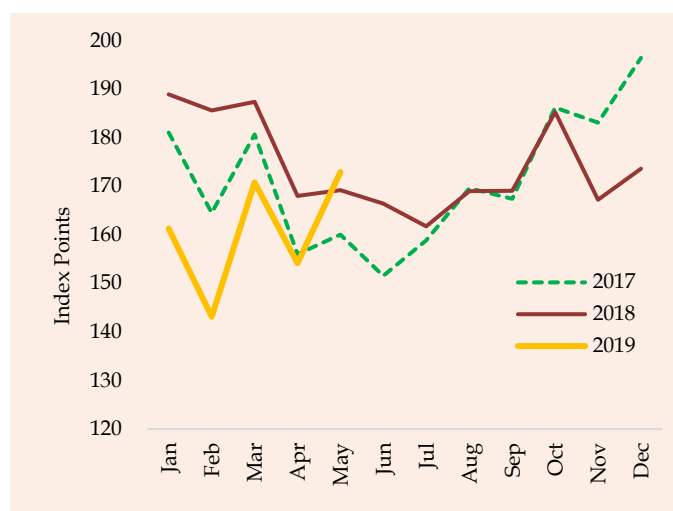
- The import volume index increased by 2.2 per cent and the unit value index decreased by 6.0 per cent in May 2019. This indicates that the decline in imports during the month was driven entirely by the reduction in prices of imported goods.

Figure 5: Monthly Import Performance



Sources: SLC, CBSL

Figure 6: Import Volume Index



Source: CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	May 2018 (US\$ mn)	May 2019 (US\$ mn)	Change (%)	Jan-May 2018 (US\$ mn)	Jan-May 2019 (US\$ mn)	Change (%)
1. Consumer goods	414.8	332.5	(19.8)	2,194.8	1,552.9	(29.2)
Food and beverages	128.6	134.8	4.9	781.2	592.3	(24.2)
Cereals and milling industry products	2.3	2.4	2.8	107.8	14.2	(86.8)
Dairy products	22.6	30.3	34.2	137.9	134.2	(2.7)
Fruits	8.8	6.4	(26.9)	41.1	35.1	(14.6)
Oils and fats	5.1	2.1	(58.3)	22.8	13.3	(41.7)
Spices	10.5	7.6	(27.3)	43.7	44.1	0.9
Seafood	17.2	25.9	50.4	94.0	92.2	(1.9)
Sugar and confectionery	25.2	21.0	(16.7)	130.3	85.1	(34.7)
Other food and beverages	36.9	39.1	5.9	203.6	174.1	(14.5)
Non-food consumer goods	286.2	197.7	(30.9)	1,413.6	960.7	(32.0)
Personal vehicles	149.3	58.7	(60.7)	665.9	276.0	(58.5)
Medical and pharmaceuticals	41.8	49.2	17.8	210.5	210.8	0.1
Telecommunication devices	19.6	16.7	(14.8)	116.6	100.9	(13.5)
Home appliances	14.4	13.6	(5.0)	101.7	85.3	(16.1)
Clothing and accessories	24.3	20.9	(14.2)	140.5	115.8	(17.5)
Printed materials and stationary	3.7	5.0	36.0	13.5	13.7	2.0
Other non-food consumables	33.2	33.7	1.5	165.0	158.1	(4.2)
2. Intermediate goods	1,042.7	1,047.0	0.4	5,372.5	4,703.8	(12.4)
Fuel	348.9	402.8	15.5	1,750.9	1,716.4	(2.0)
o/w Crude oil	115.7	105.6	(8.7)	319.5	398.8	24.8
Refined petroleum	233.1	294.1	26.2	1,287.1	1,192.5	(7.3)
Coal	0.1	3.1	2,832.8	144.3	125.2	(13.3)
Diamonds, precious stones and metals	12.7	16.6	31.0	486.7	81.2	(83.3)
o/w Gold	0.1	0.6	546.2	437.4	1.5	(99.7)
Textiles and textile articles	246.8	260.6	5.6	1,129.5	1,168.2	3.4
Chemical products	82.6	76.3	(7.7)	374.0	350.1	(6.4)
Plastic and articles thereof	62.2	53.7	(13.6)	300.2	244.4	(18.6)
Vehicle and machinery parts	25.8	23.5	(8.9)	129.2	115.2	(10.8)
Paper and paperboard and articles thereof	45.7	43.1	(5.6)	205.2	179.7	(12.5)
Base metals	56.8	44.0	(22.6)	245.8	216.7	(11.8)
Wheat and maize	44.7	23.9	(46.5)	174.9	110.7	(36.7)
Fertiliser	12.1	10.6	(12.0)	100.6	85.2	(15.3)
Rubber and articles thereof	20.8	23.6	13.3	103.7	92.5	(10.8)
Food preparations	20.8	23.6	13.3	103.7	92.5	(10.8)
Other intermediate goods	62.7	44.6	(28.9)	268.3	251.0	(6.5)
3. Investment goods	398.2	403.7	1.4	1,988.9	1,936.6	(2.6)
Machinery and equipment	201.4	206.8	2.7	1,068.3	1,055.6	(1.2)
Building material	142.3	149.8	5.3	642.0	626.8	(2.4)
Transport equipment	54.2	46.4	(14.4)	275.6	251.3	(8.8)
Other investment goods	0.3	0.7	130.5	3.0	2.9	(3.7)
4. Unclassified imports	1.2	0.4	(66.8)	65.3	2.8	(95.7)
Total imports	1,857.0	1,783.7	(3.9)	9,621.6	8,196.2	(14.8)

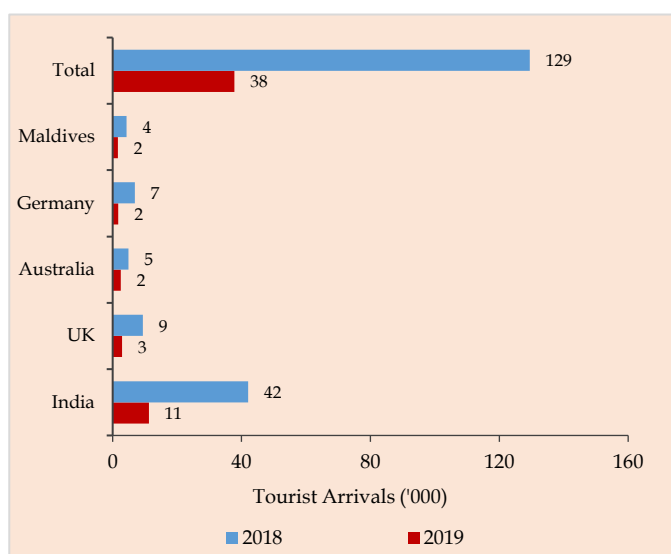
Sources: SLC, CPC, Lanka IOC PLC, CBSL

(a) Provisional

Other Major Inflows to the Current Account

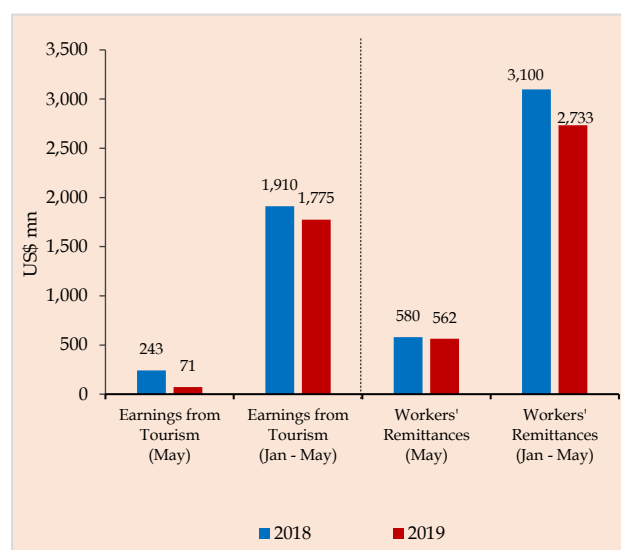
- Earnings from tourism recorded a decline in May 2019 in comparison to the corresponding period of 2018 owing to the drop in the number of tourist arrivals during the month. Tourist arrivals in May 2019 was 37,802, registering a year-on-year decline of 70.8 per cent. Such a drop in tourist arrivals was mainly due to the decline in the number of tourists from key destinations such as India, the UK, Australia, Germany, China and the USA, in the aftermath of the Easter Sunday attacks. However, travel advisories issued by about 40 countries were softened during May and June 2019, which is expected to have a positive impact on the industry for the rest of the year. These developments assisted in an almost doubling of arrivals in June in comparison to May 2019.
- Earnings from tourism were estimated at US dollars 71 million in May 2019, with cumulative earnings amounting to US dollars 1,775 million during the first five months of 2019.
- In May 2019, workers' remittances amounted to US dollars 562 million, recording a year-on-year decline of 3.1 per cent. On a cumulative basis, workers' remittances amounted to US dollars 2,733 million during the first five months of 2019.

Figure 7: Top Five Countries of Tourist Arrivals (May)



Source: SLTDA

Figure 8: Earnings from Tourism and Workers' Remittances



Sources: SLTDA, Licensed Commercial Banks, CBSL

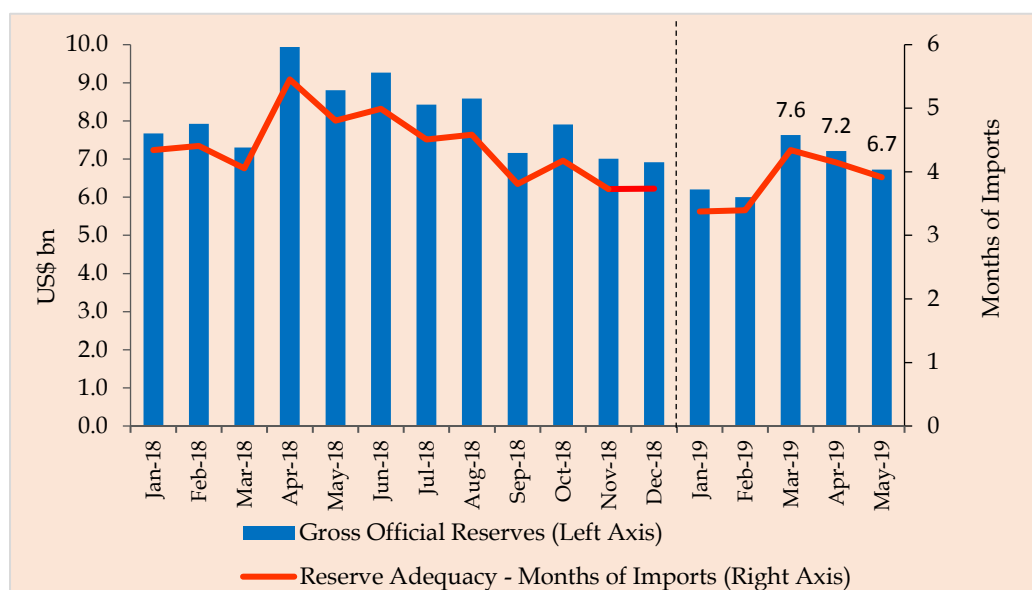
Financial Flows

- Foreign investments in the government securities market recorded a net outflow of US dollars 64 million in May 2019. On a cumulative basis, net outflows in the government securities market amounted to US dollars 90 million during the first five months of the year.
- Foreign investments in the CSE, including primary and secondary market transactions, recorded a net inflow of US dollars 3.7 million during the month of May 2019. On a cumulative basis, the CSE recorded a net outflow of US dollars 20 million in the first five months of 2019.
- Long term loans to the government recorded a net outflow of US dollars 345 million in May 2019 mainly due to the repayment of a syndicated loan of US dollars 333 million.

International Reserves

- As at end May 2019, Sri Lanka's gross official reserves were estimated at US dollars 6.7 billion, equivalent to 3.9 months of imports. Meanwhile, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 9.5 billion as at end May 2019, equivalent to 5.5 months of imports.

Figure 9: Gross Official Reserves and Reserve Adequacy



Source: CBSL

Exchange Rate Movements

- The Sri Lankan rupee appreciated by 4.1 per cent against the US dollar during the year up to 17 July 2019. Reflecting cross-currency movements, the rupee also appreciated against other major currencies except for the Canadian dollar during this period.

Figure 10: Movement of Sri Lankan Rupee Against US\$



Source: CBSL

Table 4: Movement of Sri Lankan Rupee Against Selected Currencies

Currency	2018	2019 (up to 17 July) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+4.1%
Euro	-12.7%	+6.2%
Pound sterling	-11.4%	+6.4%
Japanese yen	-18.1%	+1.9%
Canadian dollar	-9.3%	-0.1%
Australian dollar	-7.6%	+4.6%
Indian rupee	-8.7%	+2.1%

Source: CBSL