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CENTRAL BANK OF SRI LANKA

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# Press Release

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## External Sector Performance – June 2019

### Highlights

- Sri Lanka's external sector strengthened further in June 2019 with a marked contraction in the trade deficit while gross official reserves were augmented with the proceeds of the issuances of two international sovereign bonds (ISBs).
- In June 2019, the trade deficit narrowed to US dollars 316 million, the lowest since October 2010.
- This considerable reduction was due to the decline in import expenditure by 23.1 per cent (year-on-year) and an increase of export earnings by 5.8 per cent (year-on-year).
- Earnings from tourism picked up in June, gradually recovering from the impact of the Easter Sunday attacks. Earnings from tourism increased by 66.8 per cent in June 2019 in comparison to May 2019. However, earnings from tourism declined on a year-on-year basis by 57.0 per cent in June 2019.
- Workers' remittances at US dollars 537 million in June 2019 recorded a growth of 2.5 per cent (year-on-year). On a cumulative basis, workers' remittances amounted to US dollars 3,270 million during the first half of 2019.

The CBSL publishes 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>

- With the proceeds of the issuance of the ISB, gross official reserves increased to US dollars 8.9 billion at end June 2019, which was equivalent to 5.2 months of imports.

**Table 1: Summary of External Sector Performance (a)**

Category	June 2018 US\$ mn	June 2019 US\$ mn	Change (%)	Jan-June 2018 US\$ mn	Jan-June 2019 US\$ mn	Change (%)
Exports	1,024	1,084	5.8	5,732	5,999	4.7
Imports	1,819	1,400	-23.1	11,441	9,596	-16.1
Trade balance (net)	-795	-316		-5,709	-3,597	
Earnings from tourism	276 (b)	118 (c)	-57.0	2,186 (b)	1,893 (c)	-13.4
Workers' remittances	524	537	2.5	3,624	3,270	-9.8
Inflows to the CSE (net) (d)	0.3	10		53	-10	
Inflows to the Government (gross)	185	2,167		3,874	5,526	
Treasury bills and bonds	48	49		553	376	
Long term loans	137	118		821	750	
International Sovereign Bonds	-	2,000		2,500	4,400	
IMF-EFF Receipts	252	-		252	164	
Foreign Direct Investment (e)				336	262	
Overall Balance				1,148	1,827	

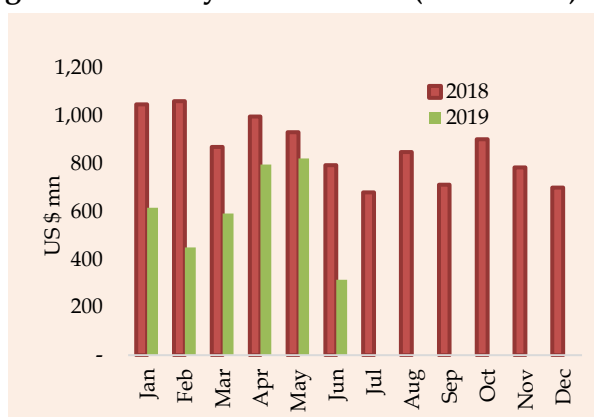
**Sources:** Sri Lanka Customs (SLC), Central Bank of Sri Lanka (CBSL), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI)

- (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) Include secondary and primary market transactions
- (e) 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

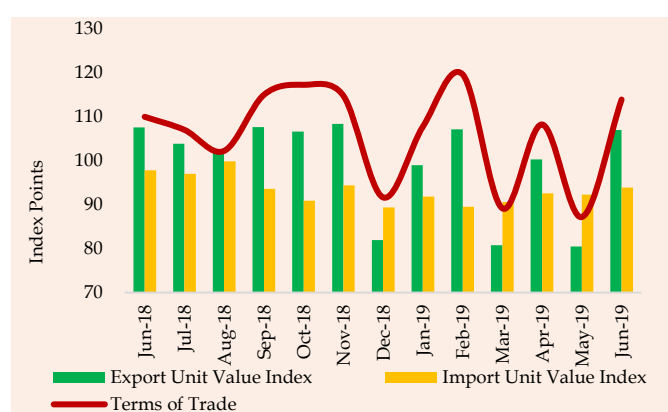
- The deficit in the trade account narrowed significantly in June 2019 in comparison to the corresponding month of 2018 mainly due to the reduction in imports of motor vehicles and fuel. On a cumulative basis, the deficit in the trade account contracted by US dollars 2,112 million to US dollars 3,597 million during the first six 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, improved by 3.6 per cent (year-on-year) to 114.0 index points in June 2019 as export prices, on average, reduced at a slower pace than the decline in import prices. However, on a cumulative basis, the terms of trade deteriorated by 1.5 per cent during the first six 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)**



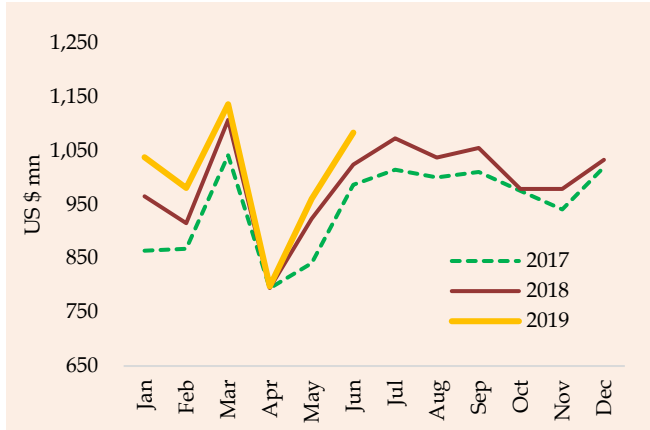
Source: CBSL

### Performance of Merchandise Exports

- Earnings from merchandise exports increased for the 28<sup>th</sup> consecutive month in June 2019 and recorded an increase of 5.8 per cent (year-on-year) to US dollars 1,084 million, mainly supported by an increase in industrial exports.
- Earnings from industrial exports increased in June 2019 mainly due to the improved performance in textiles and garments, rubber products and transport equipment. Export earnings from textiles and garments increased by 11.4 per cent in June 2019 benefiting from higher demand for garment exports from both the traditional and non-traditional markets. Export earnings from rubber products increased with better performance in tyres and surgical and other gloves while export earnings from transport equipment increased notably reflecting the supply of a naval craft to Japan. However, export earnings from petroleum products and machinery and mechanical appliances declined significantly in June 2019 in comparison to June 2018.
- Earnings from agricultural exports decreased, on a year-on-year basis, in June 2019 mainly due to the reduction in earnings from tea, rubber, spices and minor agricultural products. Export earnings from tea declined in June 2019 (year-on-year) mainly due to lower prices. However, export earnings from coconut, seafood and vegetables increased in June 2019.
- Export earnings from mineral exports also declined in June 2019 in comparison to June 2018.
- The export volume index in June 2019 increased by 6.4 per cent (year-on-year)

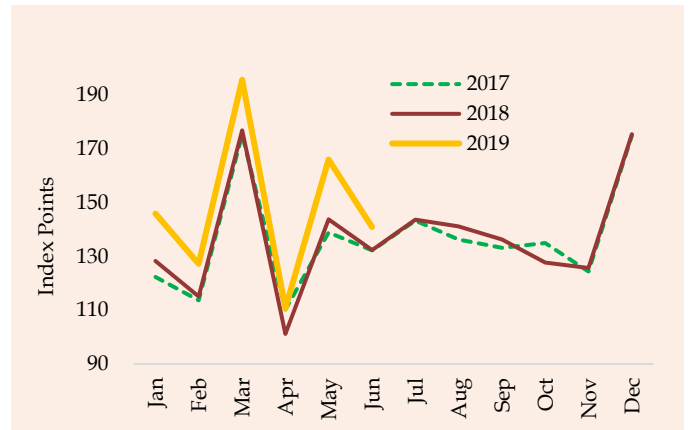
while the export unit value index declined by 0.6 per cent, indicating that the growth in exports was entirely driven by increased volumes when compared to June 2018.

**Figure 3: Monthly Export Performance**



Sources: SLC, CBSL

**Figure 4: Export Volume Index**



Source: CBSL

**Table 2: Earnings from Merchandise Exports (a)**

Category	June 2018 (US\$ mn)	June 2019 (US\$ mn)	Change (%)	Jan-Jun 2018 (US\$ mn)	Jan-Jun 2019 (US\$ mn)	Change (%)
<b>1. Industrial exports</b>	<b>800.7</b>	<b>875.4</b>	<b>9.3</b>	<b>4,433.7</b>	<b>4,728.6</b>	<b>6.7</b>
Food, beverages and tobacco	38.7	31.0	(19.9)	232.3	233.4	0.5
Animal fodder	8.5	19.4	127.7	54.2	70.7	30.6
Textiles and garments	453.5	505.3	11.4	2,519.0	2,761.4	9.6
o/w Garments	419.4	472.3	12.6	2,350.8	2,570.8	9.4
Textiles	25.7	23.4	(9.1)	120.6	138.0	14.4
Other made up textile articles	8.3	9.7	16.5	47.5	52.6	10.8
Rubber products	77.3	79.1	2.3	426.4	442.1	3.7
Gems, diamonds and jewellery	21.7	19.9	(8.3)	151.4	151.0	(0.3)
Machinery and mechanical appliances	45.0	34.4	(23.6)	219.9	206.5	(6.1)
Transport equipment	8.5	67.6	690.4	51.0	107.2	110.3
Petroleum products	52.7	35.6	(32.6)	272.0	241.9	(11.1)
Chemical products	15.2	15.5	1.8	81.8	87.9	7.5
Wood and paper products	12.4	10.8	(13.4)	70.4	70.7	0.5
Printing industry products	3.8	1.9	(49.5)	10.2	23.3	128.8
Leather, travel goods and footwear	12.5	8.9	(28.6)	77.5	58.1	(25.1)
Plastics and articles thereof	6.7	6.0	(11.1)	38.6	36.3	(5.8)
Base metals and articles	15.1	13.8	(8.7)	77.0	90.7	17.7
Ceramic products	2.8	2.8	(0.1)	14.7	14.1	(4.0)
Other	26.1	23.5	(9.9)	137.3	133.1	(3.0)
<b>2. Agricultural exports</b>	<b>219.4</b>	<b>204.5</b>	<b>(6.8)</b>	<b>1,272.3</b>	<b>1,245.1</b>	<b>(2.1)</b>
Tea	129.6	113.2	(12.7)	728.9	684.9	(6.0)
Rubber	2.2	1.7	(23.5)	18.7	15.0	(20.0)
Coconut	25.0	29.3	17.1	150.1	173.2	15.4
Spices	27.7	24.5	(11.6)	149.7	143.6	(4.1)
Vegetables	1.8	2.3	30.1	12.6	16.0	27.0
Unmanufactured tobacco	3.5	3.5	0.7	16.8	16.6	(1.4)
Minor agricultural products	10.6	8.6	(19.5)	62.1	52.3	(15.9)
Seafood	18.9	21.4	13.1	133.4	143.6	7.6
<b>3. Mineral exports</b>	<b>3.2</b>	<b>2.8</b>	<b>(9.9)</b>	<b>16.7</b>	<b>16.7</b>	<b>0.3</b>
<b>4. Unclassified exports</b>	<b>1.1</b>	<b>1.2</b>	<b>12.1</b>	<b>9.2</b>	<b>8.8</b>	<b>(4.2)</b>
<b>Total exports</b>	<b>1,024.4</b>	<b>1,084.0</b>	<b>5.8</b>	<b>5,731.9</b>	<b>5,999.2</b>	<b>4.7</b>

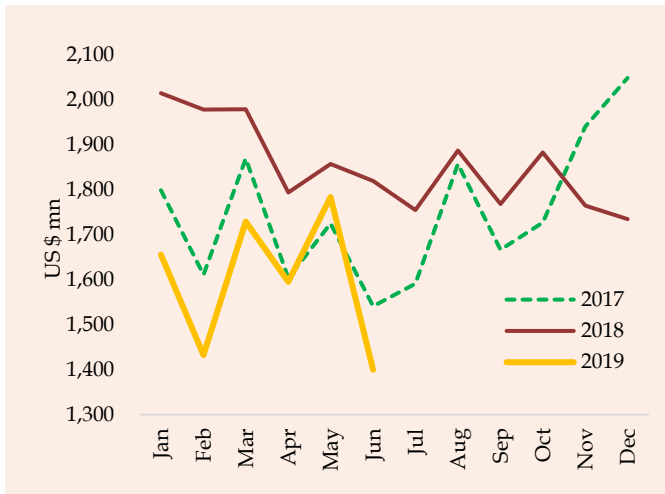
Sources: SLC, National Gem and Jewellery Authority (NGJA), Ceylon Petroleum Corporation (CPC) and Other Exporters of Petroleum, CBSL

(a) Provisional

## Performance of Merchandise Imports

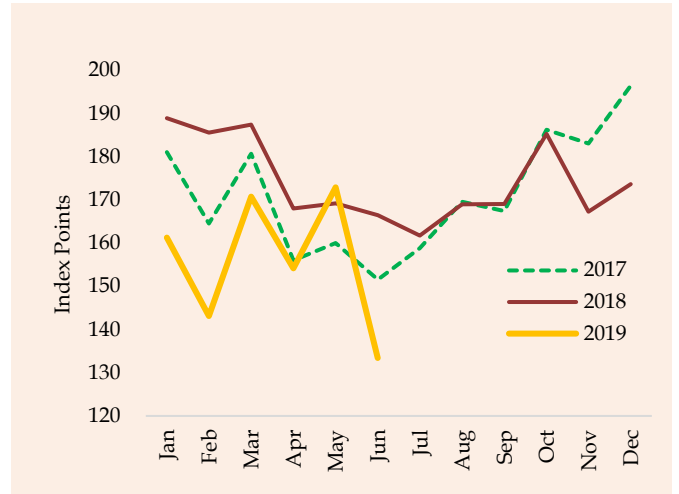
- Expenditure on merchandise imports contracted for the eighth consecutive month, recording a decline of 23.1 per cent, on a year-on-year basis, to US dollars 1,400 million. All three major categories of imports; consumer goods, investment goods and intermediate goods contributed to the decline in June 2019.
- Expenditure on consumer goods imports reduced by 39.4 per cent in June 2019, due to lower imports of all sub categories of non-food consumer goods, particularly, personal motor vehicles. The persistent decline in import expenditure on personal motor vehicles mainly reflects the impact of the upward revision of excise duties introduced in March 2019 on the importation of hybrid and electric motor vehicles and motor cars with less than 1000cc engine capacity. Expenditure on food and beverages imports also decreased reflecting lower outlays in almost all sub categories except seafood, cereals and milling industry products.
- Imports of intermediate goods decreased by 11.1 per cent in June 2019 mainly due to lower fuel imports. Both crude oil and refined petroleum products declined due to the combined impact of low import volumes and prices. Imports of textiles and textile articles, fertiliser, chemical products, food preparations and paper and paper boards also contributed to the reduction in imports. However, imports of base metals increased in June 2019.
- Import expenditure on investment goods decreased in June 2019, due to lower imports in all sub categories. Building material imports reduced mainly due to the decline in iron and steel and cement imports while transport equipment reduced mainly due to the decline in certain categories of vehicles such as commercial cabs, auto trishaws etc.
- The import volume index decreased by 19.8 per cent and the unit value index decreased by 4.0 per cent indicating that the decline in import expenditure was driven by the reduction in both volumes and prices, in comparison to June 2018.

**Figure 5: Monthly Import Performance**



Sources: SLC, CBSL

**Figure 6: Import Volume Index**



Source: CBSL

**Table 3: Expenditure on Merchandise Imports (a)**

Category	June 2018 (US\$ mn)	June 2019 (US\$ mn)	Change (%)	Jan-Jun 2018 (US\$ mn)	Jan-Jun 2019 (US\$ mn)	Change (%)
<b>1. Consumer goods</b>	<b>425.9</b>	<b>258.1</b>	<b>(39.4)</b>	<b>2,620.7</b>	<b>1,811.0</b>	<b>(30.9)</b>
Food and beverages	125.8	97.7	(22.4)	907.1	689.9	(23.9)
Cereals and milling industry products	1.9	2.1	10.6	109.7	16.3	(85.1)
o/w Rice	0.5	0.5	0.6	100.1	5.9	(94.1)
Dairy products	28.8	17.5	(39.4)	166.7	151.6	(9.1)
Vegetables	28.3	23.3	(17.9)	170.0	141.3	(16.9)
Beverages	9.7	5.6	(42.5)	43.0	41.5	(3.6)
Spices	8.2	5.9	(27.3)	51.9	50.1	(3.5)
Seafood	10.6	15.1	41.9	104.6	107.3	2.5
Sugar and confectionery	22.6	19.3	(14.6)	152.9	104.3	(31.7)
Other food and beverages	15.6	8.9	(43.0)	108.2	77.5	(28.4)
Non-food consumer goods	300.1	160.5	(46.5)	1,713.7	1,121.1	(34.6)
Personal vehicles	146.8	48.1	(67.2)	812.7	324.2	(60.1)
Medical and pharmaceuticals	48.3	38.4	(20.5)	258.8	249.2	(3.7)
Telecommunication devices	24.8	14.3	(42.4)	141.4	115.1	(18.6)
Home appliances	18.3	12.2	(33.2)	120.0	97.6	(18.7)
Clothing and accessories	24.6	18.3	(25.5)	165.1	134.2	(18.7)
Household and furniture items	13.4	12.2	(8.8)	84.1	75.3	(10.5)
Other non-food consumables	23.9	16.9	(29.4)	131.6	125.6	(4.6)
<b>2. Intermediate goods</b>	<b>947.4</b>	<b>842.6</b>	<b>(11.1)</b>	<b>6,319.9</b>	<b>5,546.4</b>	<b>(12.2)</b>
Fuel	342.7	284.5	(17.0)	2,093.6	2,001.0	(4.4)
o/w Crude oil	111.8	92.5	(17.2)	431.3	491.3	13.9
Refined petroleum	228.1	192.0	(15.8)	1,515.2	1,384.5	(8.6)
Coal	2.8	0.0	(99.2)	147.1	125.2	(14.9)
Diamonds, precious stones and metals	8.5	6.9	(18.9)	495.2	88.1	(82.2)
o/w Gold	0.4	0.1	(72.9)	437.8	1.6	(99.6)
Textiles and textile articles	230.9	226.6	(1.9)	1,360.5	1,394.8	2.5
Chemical products	72.0	61.4	(14.8)	446.0	411.5	(7.7)
Plastic and articles thereof	52.8	45.5	(13.9)	353.0	289.9	(17.9)
Vehicle and machinery parts	22.9	18.6	(18.8)	152.0	133.8	(12.0)
Paper and paperboard and articles thereof	45.1	31.6	(30.0)	250.4	211.3	(15.6)
Base metals	43.4	60.8	40.3	289.1	277.5	(4.0)
Wheat and maize	18.1	32.7	80.7	193.0	143.4	(25.7)
Fertiliser	20.6	8.2	(60.4)	121.2	93.4	(22.9)
Rubber and articles thereof	22.8	16.3	(28.6)	126.5	108.8	(14.0)
Food preparations	26.8	12.4	(53.9)	162.3	116.9	(27.9)
Other intermediate goods	40.7	37.1	(8.8)	277.2	276.0	(0.4)
<b>3. Investment goods</b>	<b>443.5</b>	<b>299.0</b>	<b>(32.6)</b>	<b>2,432.4</b>	<b>2,235.6</b>	<b>(8.1)</b>
Machinery and equipment	195.6	176.8	(9.6)	1,263.9	1,232.4	(2.5)
Building material	117.2	98.6	(15.8)	759.2	725.5	(4.4)
Transport equipment	130.4	23.3	(82.1)	406.0	274.5	(32.4)
Other investment goods	0.3	0.3	3.1	3.3	3.2	(3.0)
<b>4. Unclassified imports</b>	<b>2.7</b>	<b>0.1</b>	<b>(94.6)</b>	<b>68.0</b>	<b>3.0</b>	<b>(95.6)</b>
<b>Total imports</b>	<b>1,819.5</b>	<b>1,399.8</b>	<b>(23.1)</b>	<b>11,441.1</b>	<b>9,596.0</b>	<b>(16.1)</b>

Sources: SLC, CPC, Lanka IOC PLC, CBSL

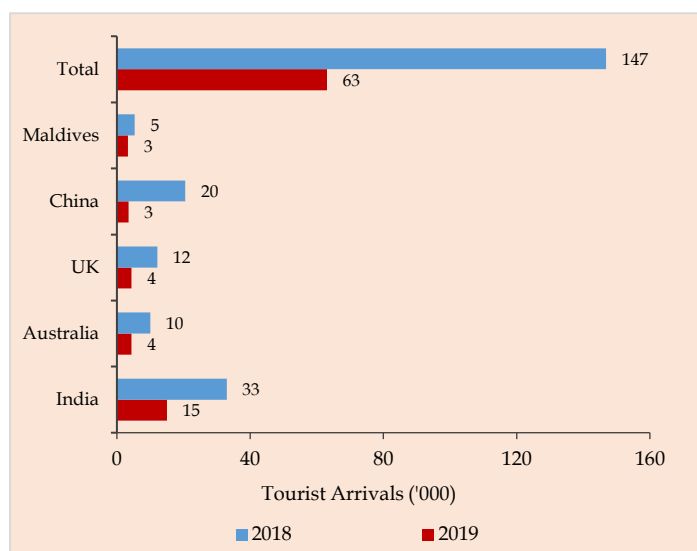
(a) Provisional



## Other Major Inflows to the Current Account

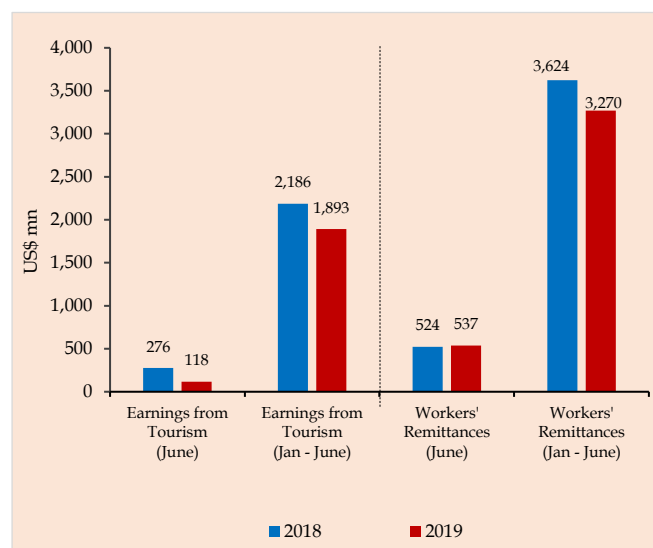
- Tourist arrivals gradually recovered in June 2019 from the impact of the Easter Sunday attacks. Accordingly, tourist arrivals increased by 66.8 per cent to 63,072 in June 2019 in comparison to 37,802 in May 2019. However, tourist arrivals in June 2019 registered a year-on-year decline of 57.0 per cent. The drop in tourist arrivals was mainly due to the decline in the number of tourists from key destinations such as India, China, the United Kingdom and Australia in the aftermath of the Easter Sunday attacks. The decline in arrivals from India and China accounted for 41.6 per cent of the total decline in June 2019.
- Earnings from tourism were estimated at US dollars 118 million in June 2019, in comparison to US dollars 276 million in June 2018. On a cumulative basis, earnings from tourism were estimated at US dollars 1,893 million during the first six months of 2019 compared to US dollars 2,186 million during the corresponding period of 2018.
- Meanwhile, workers' remittances grew by 2.5 per cent, year-on-year, to US dollars 537 million in June 2019. On a cumulative basis, however, workers' remittances recorded a decline of 9.8 per cent reaching US dollars 3,270 million during the first half of 2019 in comparison to the corresponding period of 2018.

**Figure 7: Top Five Countries of Tourist Arrivals (June)**



Source: SLTDA

**Figure 8: Earnings from Tourism and Workers' Remittances**



Sources: SLTDA, Licensed Commercial Banks, CBSL

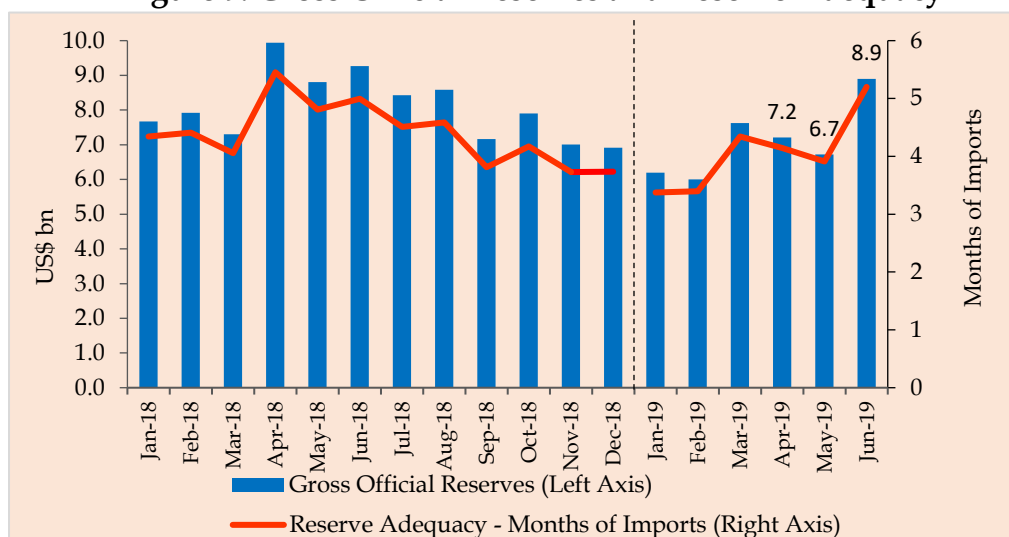
## Financial Flows

- Foreign investments in the government securities market recorded a net outflow of US dollars 5 million in June 2019. On a cumulative basis, net outflows in the government securities market amounted to US dollars 96 million during the first half of the year.
- Foreign investments in the CSE, including primary and secondary market transactions, recorded a net inflow of US dollars 10 million during the month of June 2019. On a cumulative basis, the CSE recorded a net outflow of US dollars 10 million in the first half of 2019, including primary and secondary market transactions.
- Further, long term loans to the government recorded a net outflow of US dollars 99 million during June 2019.

## International Reserves

- Along with the proceeds of the International Sovereign Bond (ISB) of US dollars 2 billion, issued in June 2019, the level of gross official reserves of the country increased to US dollars 8.9 billion by end June 2019 (equivalent to 5.2 months of imports) from US dollars 6.7 billion recorded at end May 2019. Meanwhile, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, were US dollars 11.5 billion as at end June 2019, which was equivalent to 6.8 months of imports.

**Figure 9: Gross Official Reserves and Reserve Adequacy**

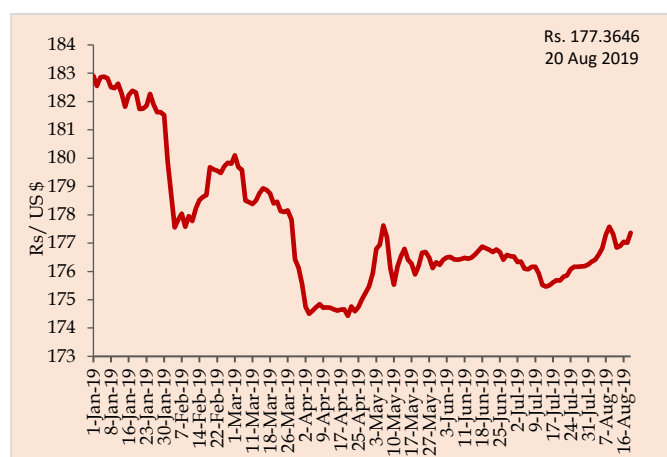


Source: CBSL

## Exchange Rate Movements

- The Sri Lankan rupee appreciated by 3.0 per cent against the US dollar during the year up to 20 August 2019. Reflecting the cross-currency movements, the rupee also appreciated against other major currencies except for the Japanese yen 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 20 Aug) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+3.0%
Euro	-12.7%	+6.3%
Pound sterling	-11.4%	+7.7%
Japanese yen	-18.1%	-0.6%
Canadian dollar	-9.3%	+0.7%
Australian dollar	-7.6%	+7.2%
Indian rupee	-8.7%	+5.3%

Source: CBSL