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CENTRAL BANK OF SRI LANKA

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Press Release

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External Sector Performance – December 2018

Highlights

- The trade deficit declined significantly in December 2018 (year-on-year) with a notable deceleration in import expenditure. Exports grew by 1.4 per cent while imports fell by 15.3 per cent in December 2018 (year-on-year).
- Total exports of goods grew by 4.7 per cent in 2018 to US dollars 11.9 billion while imports recorded a growth of 6.0 per cent to US dollars 22.2 billion. Consequently, the trade deficit widened moderately to US dollars 10.3 billion in 2018 from US dollars 9.6 billion in 2017.
- Earnings from tourism remained healthy with a 4.8 per cent (year-on-year) growth in December 2018, resulting in a total income of US dollars 4.4 billion in 2018, a growth of 11.6 per cent from 2017.
- Workers' remittances recorded a marginal decline of 2.1 per cent in 2018 to US dollars 7.0 billion, including the drop of 13.0 per cent in December 2018.
- In the financial account, the government securities market and the Colombo Stock Exchange (CSE) recorded outflows in December 2018.
- The pressure on the exchange rate subsided during the latter part of December 2018, reflecting mainly the improvement in the trade balance.
- Gross official reserves stood at US dollars 6.9 billion as at end 2018.

Table 1: Summary of External Sector Performance (a)

Category	Dec 2017 US\$ mn	Dec 2018 US\$ mn	Change (%)	Jan- Dec 2017 US\$ mn	Jan- Dec 2018 US\$ mn	Change (%)
Exports	1,020	1,033	1.4	11,360	11,890	4.7
Imports	2,048	1,735	-15.3	20,980	22,233	6.0
Trade balance (net)	-1,029	-701		-9,619	-10,343	
Earnings from tourism (b)	453	475	4.8	3,925	4,381	11.6
Workers' remittances	671 (c)	584	-13.0	7,164 (c)	7,015	-2.1
Inflows to the CSE (net) (d)	11	-26		279	-55	
Inflows to the Government (gross)	390	44		5,710	5,535	
Treasury bills and bonds	124	8		1,667	706	
Long term loans	267	36		1,544	1,329	
Syndicated loans	-	-		1,000	1,000	
International Sovereign Bonds	-	-		1,500	2,500	
IMF-EFF receipts	251	-		418	252	
Foreign Direct Investment (e)				693	1,801	
Overall Balance				2,068	-1,103	

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) Revised

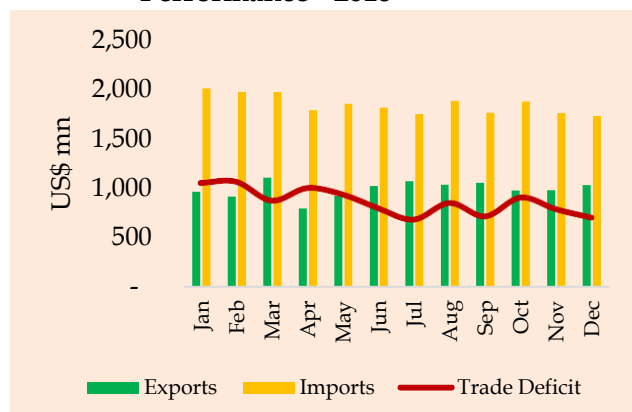
(d) Include secondary and primary market transactions

(e) Data available for the first nine 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

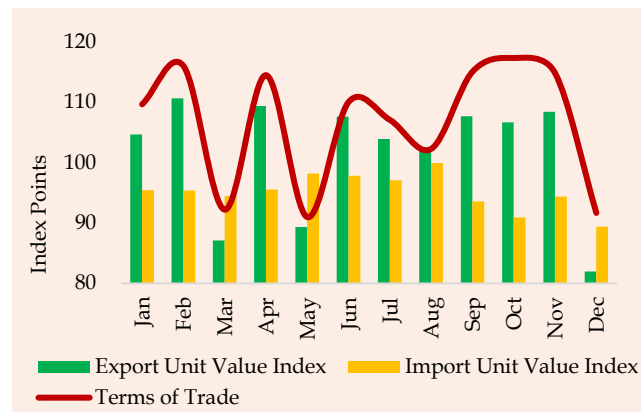
- Reflecting the impact of policy measures implemented to discourage vehicle and non-essential consumer goods imports, the deficit in the trade account contracted significantly in December 2018 compared to the corresponding month of the previous year. However, on a cumulative basis, the trade deficit in 2018 widened in comparison to 2017 as import growth outperformed the growth in exports.
- The terms of trade improved by 5.5 per cent (year-on-year) to 91.7 index points in December 2018 due to an increase of export prices and a decline in import prices. However, on a cumulative basis, the terms of trade broadly remained unchanged at 105.5 index points in 2018 compared to 2017 as both the import and export price indices increased at a similar rate.

Figure 1: Monthly Merchandise Trade Performance - 2018



Sources: SLC, CBSL

Figure 2: Terms of Trade - 2018



Source: CBSL

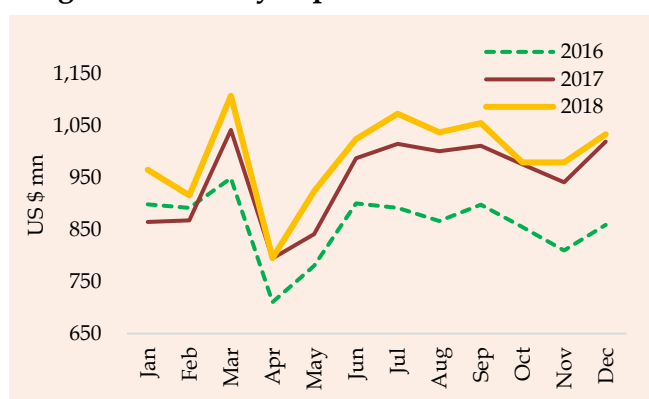
Performance of Merchandise Exports

- Earnings from merchandise exports increased marginally by 1.4 per cent (year-on-year) to US dollars 1,033 million in December 2018. This marginal growth was mainly due to the base effect as the month of December recorded the second highest export value in 2017.
- An increase in industrial exports contributed mainly to the growth of export earnings in December 2018 while agricultural and mineral exports declined. Export earnings from industrial exports increased in December 2018, mainly due to higher exports of textiles and garments. The higher demand for garments from USA and EU supported the increase in export earnings from this sub-sector. Further, export earnings from rubber products increased during the month owing to the improved performance in all categories except surgical and other gloves. Export earnings from food, beverages and tobacco, machinery and mechanical appliances, base metals and articles, chemical products and transport equipment also rose, contributing towards the increase in industrial exports in December 2018. Meanwhile, export earnings from petroleum products, which performed well during the first eleven months of the year, declined in December 2018 due to the lower quantum of light oil exports. However, bunker and aviation fuel exports increased during the month. In addition, export earnings from gems, diamonds and jewellery, leather, travel goods and footwear, plastics and articles thereof and printing industry products dropped in December 2018.
- Earnings from agricultural exports decreased in December 2018 due to the poor performance in many sub categories except coconut, seafood and vegetables. Despite an increase in export volumes of tea, its earnings declined during the month owing to

the sharp reduction recorded in average export prices. Meanwhile, export earnings from spices, minor agricultural products, rubber and unmanufactured tobacco declined in December 2018. However, earnings from coconut exports increased for the first time in December 2018 after September 2017, due to the increase in export earnings from coconut kernel products, particularly desiccated coconut. Export earnings from seafood also increased significantly in December 2018 owing to higher exports to the EU market.

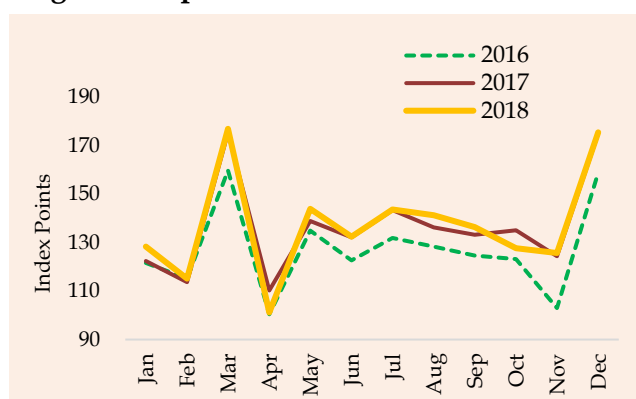
- The export volume index increased marginally by 0.2 per cent in December 2018 while the export unit value index increased by 1.1 per cent, implying that the growth in exports was driven mainly by higher prices, rather than volume in comparison to December 2017.
- On a cumulative basis, export earnings increased by 4.7 per cent to US dollars 11,890 million in 2018 from US dollars 11,360 million in 2017 driven by industrial exports while agricultural and mineral exports declined. Higher performance registered in earnings from textiles and garments, petroleum products, rubber products, food, beverages and tobacco and machinery and mechanical appliances mainly contributed to the increase in industrial exports. Earnings from agricultural exports declined in 2018 due to the poor performance in almost all sub categories except seafood exports.
- On a cumulative basis, the export volume index increased marginally by 0.5 per cent in 2018 while the export unit value index increased by 4.1 per cent implying that the growth in exports on a cumulative basis was mainly driven by higher prices rather than volumes in comparison to 2017.

Figure 3: Monthly Export Performance



Sources: SLC, CBSL

Figure 4: Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	Dec 2017 (US\$ mn)	Dec 2018 (US\$ mn)	Change (%)	Jan - Dec 2017 (US\$ mn)	Jan - Dec 2018 (US\$ mn)	Change (%)
1. Industrial exports	796.3	813.2	2.1	8,541.9	9,258.2	8.4
Food, beverages and tobacco	32.8	38.5	17.4	392.7	462.3	17.7
Animal fodder	9.9	8.2	(17.7)	80.2	107.8	34.5
Textiles and garments	470.0	493.4	5.0	5,031.9	5,317.7	5.7
o/w Garments	445.1	459.6	3.2	4,739.3	4,960.8	4.7
Textiles	17.4	24.2	39.2	205.4	260.1	26.6
Other made up textile articles	7.5	9.6	28.8	87.3	96.8	10.9
Rubber products	74.6	76.4	2.4	835.4	875.3	4.8
Gems, diamonds and jewellery	20.7	18.9	(9.1)	257.5	278.0	8.0
Machinery and mechanical appliances	30.0	33.1	10.6	370.8	434.8	17.3
Transport equipment	4.6	8.4	80.6	162.3	120.3	(25.9)
Petroleum products	62.4	52.9	(15.2)	434.3	622.1	43.2
Chemical products	12.4	13.2	6.2	146.4	166.8	13.9
Wood and paper products	12.7	11.7	(7.8)	138.8	140.5	1.2
Printing industry products	4.3	2.4	(44.5)	48.8	31.7	(35.2)
Leather, travel goods and footwear	14.1	8.7	(38.5)	158.4	147.7	(6.8)
Plastics and articles thereof	8.1	7.4	(9.3)	74.6	77.6	4.1
Base metals and articles	10.2	12.4	21.5	115.9	165.4	42.8
Ceramic products	2.9	2.0	(32.3)	33.7	31.3	(7.3)
Other	26.4	25.7	(2.7)	260.2	279.0	7.2
2. Agricultural exports	219.7	216.6	(1.4)	2,767.2	2,579.3	(6.8)
Tea	126.9	117.1	(7.8)	1,529.8	1,428.5	(6.6)
Rubber	3.3	1.9	(41.9)	38.9	31.6	(18.8)
Coconut	18.9	23.9	26.3	347.9	311.0	(10.6)
Spices	32.6	30.0	(8.2)	406.2	360.2	(11.3)
Vegetables	2.0	2.2	6.5	28.5	28.2	(0.8)
Unmanufactured tobacco	4.9	4.1	(17.8)	36.5	35.6	(2.5)
Minor agricultural products	9.4	8.3	(11.9)	138.7	118.4	(14.7)
Seafood	21.5	29.2	35.7	240.6	265.8	10.5
3. Mineral exports	2.3	2.0	(15.2)	34.5	34.4	(0.4)
4. Unclassified exports	1.2	1.6	35.8	16.9	17.8	5.8
Total exports	1,019.5	1,033.4	1.4	11,360.4	11,889.6	4.7

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

(a) Provisional

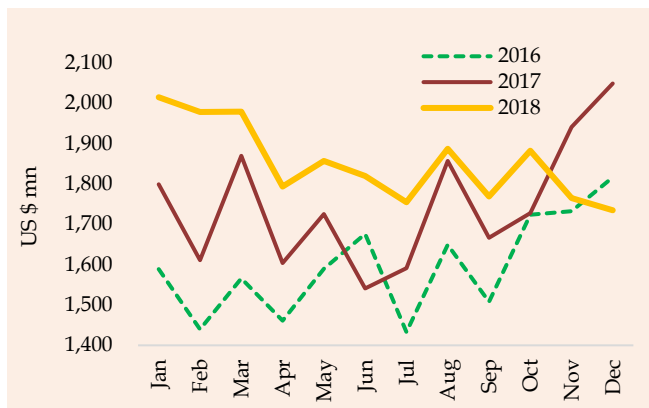
Performance of Merchandise Imports

- Reflecting the effect of policy measures taken by the Central Bank of Sri Lanka (CBSL) and the Government, expenditure on merchandise imports declined by 15.3 per cent (year-on-year) to US dollars 1,735 million in December 2018, recording the lowest import value for the year. All major import categories namely intermediate goods, consumer goods and investment goods contributed to this decline.
- Import expenditure on intermediate goods declined substantially in December 2018 mainly due to lower expenditure incurred on fuel, gold and base metals. Expenditure on fuel imports declined significantly benefiting from lower prices of crude oil and refined petroleum products as well as lower import volumes of refined petroleum and coal. Reflecting the favourable impact of the imposition of customs duty on gold, expenditure on gold imports continued to decline to negligible levels in December 2018 as well. Meanwhile, expenditure on base metal imports also dropped mainly due to lower imports of iron and steel. However, import expenditure on textiles and textile articles, wheat and maize and fertiliser increased during the month.
- In December 2018, import expenditure on consumer goods declined mainly due to lower expenditure on rice, vegetables, personal motor vehicles and telecommunication devices. Expenditure on rice imports decreased significantly during the month due to lower import volumes of rice with higher supply in the domestic market. Reflecting the impact of policy measures to curtail vehicle imports, expenditure on personal motor vehicle imports showed a significant decline in December 2018 compared to the corresponding month of the previous year. Expenditure on non-food consumer goods such as telecommunication devices, rubber products, home appliances and cosmetics and toiletries also decreased in December 2018 due to policy measures taken to restrict certain categories of non-essential consumer goods imports. However, import expenditure on dairy products, sugar and clothing and accessories increased during the month.
- Expenditure on the importation of investment goods also declined in December 2018, mainly due to lower imports of machinery and equipment and transport equipment while imports of building material increased.
- In December 2018, both import volume and unit value indices decreased by 11.6 per cent and 4.2 per cent, respectively, indicating that the decline in imports was driven by

both low volumes and prices of imported goods in comparison to the corresponding period of 2017.

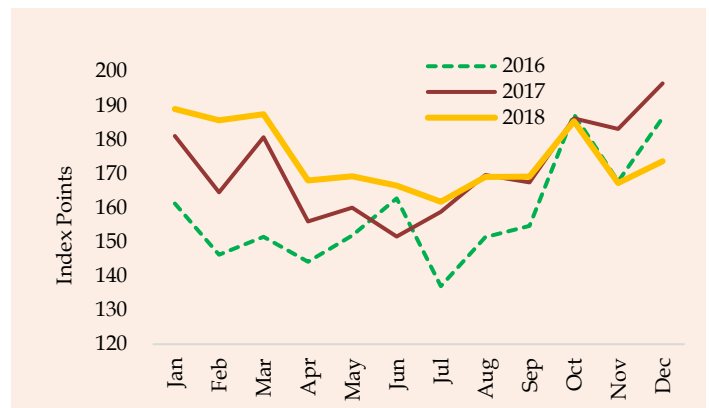
- On a cumulative basis, expenditure on merchandise imports increased by 6.0 per cent to US dollars 22,233 million in 2018 in comparison to 2017 mainly driven by higher expenditure incurred on fuel, personal motor vehicles, textiles and textile articles and fertiliser imports.
- During 2018, the CBSL and the government introduced several policy measures on imports of gold, personal motor vehicles and non-essential consumer goods to curtail import expenditure with the aim of mitigating the pressure on the balance of payments. As a result, expenditure on imports decelerated towards the end of the year.
- On a cumulative basis, import volume index and import unit value index increased by 1.8 per cent and 4.1 per cent in 2018, respectively, indicating the growth in imports was mainly driven by the price impact rather than the volume impact in comparison to 2017.

Figure 5: Monthly Import Performance



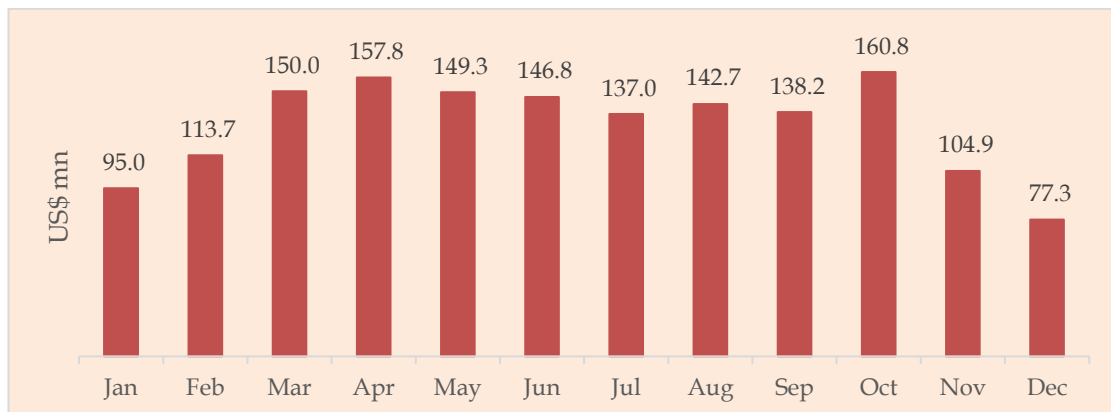
Sources: SLC, CBSL

Figure 6: Import Volume Index



Source: CBSL

Figure 7: Import Expenditure on Personal Motor Vehicles - 2018



Sources: SLC, CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	Dec 2017 (US\$ mn)	Dec 2018 (US\$ mn)	Change (%)	Jan - Dec 2017 (US\$ mn)	Jan - Dec 2018 (US\$ mn)	Change (%)
1. Consumer goods	433.6	357.0	(17.7)	4,502.5	4,979.7	10.6
Food and beverages	181.5	134.6	(25.8)	1,841.1	1,606.1	(12.8)
Cereals and milling industry products	42.4	4.9	(88.3)	314.5	126.2	(59.9)
o/w Rice	40.8	2.9	(93.0)	300.9	106.8	(64.5)
Dairy products	24.8	33.2	33.9	315.8	332.3	5.2
Vegetables	40.6	26.1	(35.8)	368.0	304.0	(17.4)
Seafood	18.3	14.8	(19.2)	217.5	197.2	(9.3)
Sugar and confectionery	24.3	26.3	8.3	258.0	249.7	(3.2)
Spices	8.3	9.8	18.0	92.8	114.0	22.9
Other food and beverages	22.7	19.4	(14.6)	274.4	282.7	3.0
Non-food consumer goods	252.1	222.4	(11.8)	2,661.5	3,373.6	26.8
Personal vehicles	95.3	77.3	(18.9)	772.7	1,573.5	103.6
Medical and pharmaceuticals	45.5	43.4	(4.8)	520.0	532.0	2.3
Home appliances	18.6	16.2	(13.0)	258.2	232.2	(10.1)
Clothing and accessories	24.2	26.9	11.4	369.0	310.3	(15.9)
Telecommunication devices	27.1	21.5	(20.7)	281.2	272.4	(3.1)
Household and furniture items	16.6	13.0	(22.0)	186.2	169.4	(9.0)
Other non-food consumables	24.6	24.1	(2.0)	274.3	283.8	3.5
2. Intermediate goods	1,193.8	983.1	(17.6)	11,435.8	12,488.0	9.2
Fuel	433.3	317.3	(26.8)	3,427.9	4,151.9	21.1
o/w Crude oil	95.7	91.4	(4.5)	704.0	978.1	38.9
Refined petroleum	295.1	187.0	(36.6)	2,462.5	2,937.2	19.3
Diamonds, precious stones and metals	95.4	20.0	(79.0)	772.4	572.7	(25.9)
o/w Gold	79.1	0.0	(100.0)	649.8	438.7	(32.5)
Textiles and textile articles	232.5	241.5	3.9	2,724.2	2,858.5	4.9
Paper and paperboard and articles	40.1	42.7	6.5	484.6	529.4	9.3
Agricultural inputs	24.0	17.9	(25.5)	204.3	207.6	1.6
Wheat and maize	2.7	24.9	808.1	356.6	373.5	4.7
Base metals	125.1	86.1	(31.2)	628.7	682.8	8.6
Plastic and articles thereof	55.6	51.5	(7.4)	632.6	697.4	10.2
Chemical products	72.4	69.9	(3.4)	834.5	904.2	8.4
Fertiliser	16.2	26.0	60.9	102.8	261.6	154.4
Rubber and articles thereof	23.7	19.9	(16.1)	287.8	268.9	(6.6)
Other intermediate goods	72.8	65.5	(10.0)	979.3	979.5	0.0
3. Investment goods	418.8	394.0	(5.9)	4,894.7	4,690.4	(4.2)
Machinery and equipment	229.6	200.0	(12.9)	2,620.6	2,491.6	(4.9)
Building material	130.9	141.3	8.0	1,591.4	1,524.5	(4.2)
Transport equipment	57.9	52.2	(9.8)	674.9	668.1	(1.0)
Other investment goods	0.4	0.4	(0.7)	7.8	6.1	(22.4)
4. Unclassified imports	2.4	0.4	(81.1)	146.8	74.6	(49.1)
Total imports	2,048.5	1,734.6	(15.3)	20,979.8	22,232.7	6.0

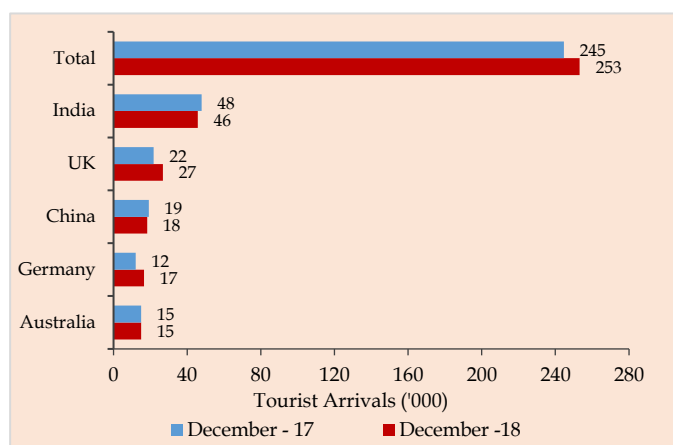
Sources: SLC, CPC, Lanka IOC PLC, CBSL

(a) Provisional

Other Major Inflows to the Current Account

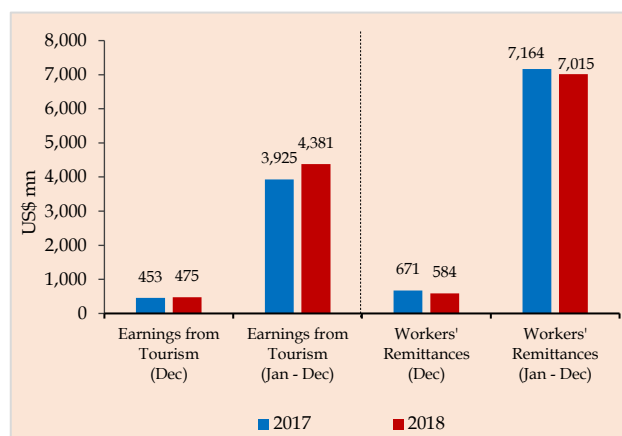
- Tourist arrivals recorded a growth of 3.5 per cent in December 2018, resulting in a total of 2.3 million arrivals during 2018, compared to 2.1 million arrivals in 2017. Tourist arrivals from all major regions, except East Asia and the Middle East increased in 2018.
- India remained as the leading source country for tourist arrivals in 2018, while China remained the second largest origin albeit with a marginal decline, followed by the UK, Germany and Australia.
- With the growth in tourist arrivals and an increase in estimated average spending by tourists, earnings from tourism recorded a healthy growth of 11.6 per cent during 2018. Consequently, tourist earnings rose to US dollars 4,381 million in 2018 in comparison to US dollars 3,925 million in 2017.
- Workers' remittances in December 2018 declined by 13.0 per cent, year-on-year, to US dollars 584 million. On a cumulative basis, workers' remittances recorded a decline of 2.1 per cent to US dollars 7,015 million in 2018 from US dollars 7,164 million in 2017.

Figure 8: Top Five Sources of Tourist Arrivals in December



Source: SLTDA

Figure 9: Earnings from Tourism and Workers' Remittances



Sources: SLTDA, Licensed Commercial Banks, CBSL

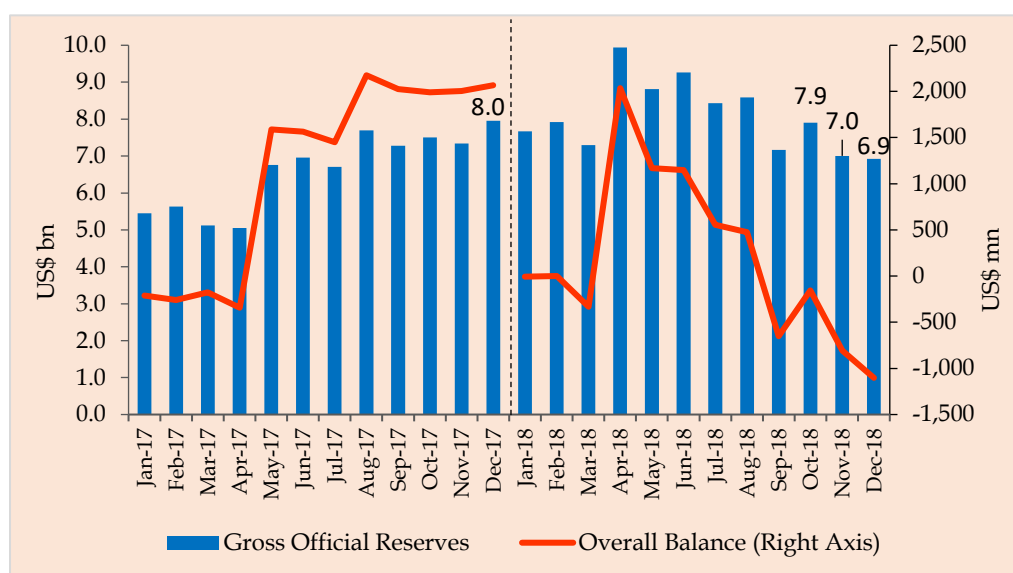
Financial Flows

- Both the government securities market and the CSE witnessed foreign investment outflows in December 2018. The government securities market recorded a net outflow of US dollars 188 million during the month, resulting in a cumulative net outflow of US dollars 990 million for 2018.
- The CSE recorded a net outflow of foreign investments of US dollars 26 million in December 2018, including both secondary and primary market transactions. On a cumulative basis, the CSE recorded a net outflow of US dollars 55 million in 2018, which comprises a net outflow of US dollars 133 million from the secondary market and an inflow of US dollars 77 million to the primary market.
- Long term loans to the government recorded a net outflow of US dollars 192 million during December 2018. However, on a cumulative basis, long term loans to the government recorded a net inflow of US dollars 558 million for 2018.

International Reserves

- As at end December 2018, gross official reserves were estimated at US dollars 6.9 billion, which is equivalent to 3.7 months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 9.6 billion as at end December 2018, which is equivalent to 5.2 months of imports.

Figure 10: Gross Official Reserves and Overall Balance

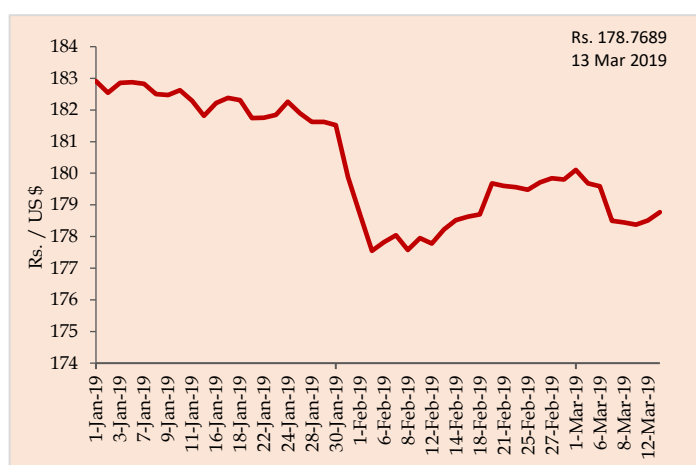


Source: CBSL

Exchange Rate Movements

- During the year 2018, the Sri Lankan rupee depreciated by 16.4 per cent against the US dollar while also depreciating against other major currencies.
- However, during 2019 up to 13 March, the Sri Lankan rupee appreciated by 2.2 per cent against the US dollar. Furthermore, reflecting cross currency movements, the rupee also appreciated against other major currencies except for the pound sterling during this period. Since the pressure on the exchange rate has now eased, the Central Bank removed the margin requirement on both vehicle and non-essential consumer goods imports effective from 7 March 2019.

Figure 11: Movement of Sri Lankan Rupee Against US\$



Source: CBSL

Table 4: Movement of Sri Lankan Rupee Against Selected Currencies

Currency	2018	2019 (up to 13 March) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+2.2%
Euro	-12.7%	+3.6%
Pound sterling	-11.4%	-0.9%
Japanese yen	-18.1%	+2.9%
Canadian dollar	-9.3%	+0.2%
Australian dollar	-7.6%	+2.2%
Indian rupee	-8.7%	+1.7%

Source: CBSL