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Press Release

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External Sector Performance – January 2019

Highlights

- In January 2019, the trade deficit continued its improving trend observed in recent months. The trade deficit was recorded at US dollars 617 million during the month, compared to a deficit of US dollars 701 million in December 2018, and US dollars 1,049 million in January 2018.
- This significant reduction in the trade deficit was due to the combined effect of higher earnings from exports and a notable deceleration in import expenditure. Exports grew by 7.5 per cent while imports declined significantly by 17.8 per cent in January 2019 (year-on-year).
- Tourist arrivals grew by 2.2 per cent (year-on-year) in January 2019, resulting in earnings from tourism of US dollars 458 million during the month.
- Workers' remittances in January 2019 amounted to US dollars 545 million, a notable reduction compared to January 2018.
- In the financial account, net outflows from the government securities market moderated in January 2019, compared to the second half of 2018.
- Meanwhile, the government repaid the International Sovereign Bond (ISB) of US dollars 1 billion that matured in January 2019, as scheduled.
- The significant pressure on the exchange rate that was witnessed in the latter part of 2018 eased with a notable reversal during January 2019. Accordingly, the Sri Lankan

rupee appreciated by 1.6 per cent in January 2019 from LKR 182.75 per US dollar at end December 2018 to LKR 179.88 by end January 2019. The exchange rate appreciated to LKR 174.65 per US dollar by 17 April 2019, recording an appreciation of 4.6 per cent.

- With the settlement of the maturing ISB, the country's gross official reserves declined to US dollars 6.2 billion at end January 2019. Consequently, Sri Lanka successfully issued ISBs amounting to US dollars 2.4 billion in March 2019, increasing the gross official reserves to US dollars 7.6 billion by end March 2019, which was equivalent to an estimated 4.3 months of imports.

Table 1: Summary of External Sector Performance (a)

Category	2018 US\$ mn	Change 2018/17 (%)	January 2018 US\$ mn	January 2019 US\$ mn	Change (%)
Exports	11,890	4.7	965	1,038	7.5
Imports	22,233	6.0	2,014	1,655	-17.8
Trade balance (net)	-10,343		-1,049	-617	
Earnings from tourism	4,381 (b)	11.6	448 (b)	458	2.2
Workers' remittances	7,015	-2.1	729	545	-25.2
Inflows to the CSE (net) (c)	-55		37	-14	
Inflows to the Government (gross)	5,535		293	281	
Treasury bills and bonds	706		170	72	
Long term loans	1,329		123	209	
Syndicated loans	1,000		-	-	
International Sovereign Bonds	2,500		-	-	
IMF-EFF receipts	252		-	-	
Foreign Direct Investment (d)	2,136				
Overall Balance	-1,103		-6	-990	

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

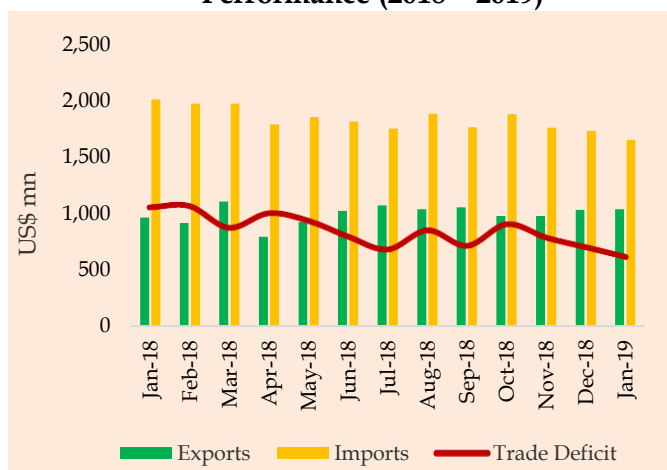
(c) Include secondary and primary market transactions

(d) Data 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

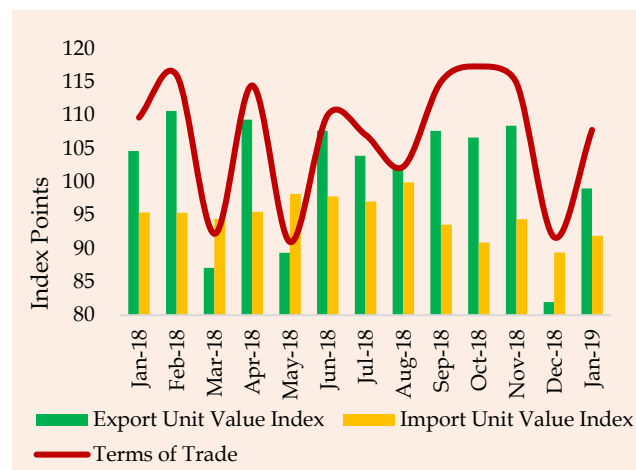
- The deficit in the trade account contracted significantly in January 2019 compared to January 2018, as a result of increased export earnings and the significant reduction in imports, mainly reflecting the impact of policy measures implemented to discourage vehicle and non-essential consumer goods imports.
- Terms of trade deteriorated by 1.7 per cent (year-on-year) to 107.8 index points in January 2019, due to the decline in export prices at a higher rate than the decline in import prices. Low agricultural and industrial export prices contributed to the decline in the overall export price index while import prices of intermediate and investment goods contributed to the decline in the import price index. However, terms of trade improved in January 2019 in comparison to the previous month.

Figure 1: Monthly Merchandise Trade Performance (2018 - 2019)



Sources: SLC, CBSL

Figure 2: Terms of Trade (2018 - 2019)



Source: CBSL

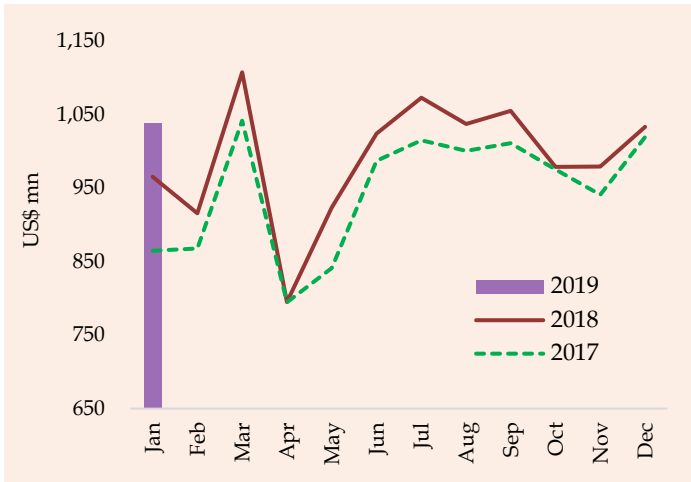
Performance of Merchandise Exports

- In January 2019, earnings from merchandise exports surpassed US dollars 1 billion for the second consecutive month. Considering the historical pattern of relatively low level of exports being recorded during the month of January, reaching over US dollars 1 billion of export earnings in January 2019 is noteworthy. Accordingly, export earnings increased by 7.5 per cent (year-on-year) to US dollars 1,038 million in January 2019, driven by increased exports from all major sectors.
- Industrial exports mainly contributed to the growth of export earnings, driven by textiles and garments, rubber products, machinery and mechanical appliances and

food, beverages and tobacco. Textiles and garment exports increased as a result of high demand for garments from the EU and the USA as well as non-traditional markets such as India, Japan, Australia, China and Canada. Further, export earnings from rubber products increased during the month owing to the improved performance in all sub categories. Export earnings from machinery and mechanical appliances also increased with increases in all sub categories, while earning from food, beverages and tobacco exports increased driven by manufacturing tobacco. In addition, animal fodder and printing industry products also contributed towards the increase in industrial exports in January 2019. Meanwhile, export earnings from petroleum products declined significantly in January 2019 for the second consecutive month due to lower bunkering and aviation fuel exports driven by significantly lower bunkering quantity, reflecting the intense competition faced by Sri Lankan ports from regional ports mainly in India and Singapore. In addition, export earnings from gems, diamonds and jewellery products also declined in January 2019.

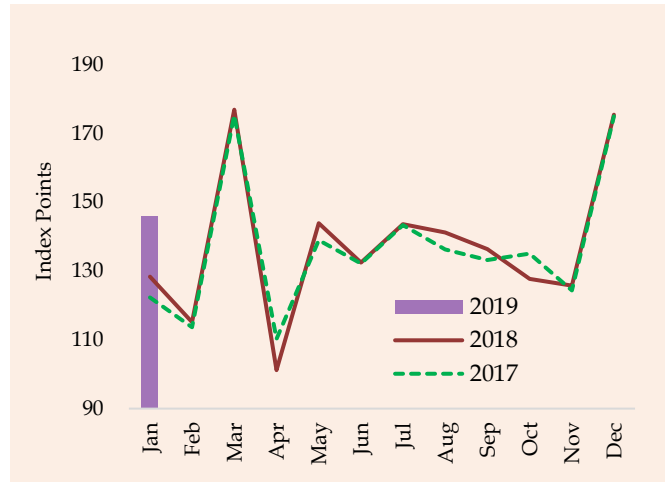
- For the first time since February 2018, earnings from agricultural exports grew on a year-on year-basis, in January 2019, mainly due to the growth in coconut, seafood, vegetables and unmanufactured tobacco exports. Earnings from coconut exports increased due to the increase in export earnings from both kernel and non-kernel products led by desiccated coconut and coconut fibre, respectively. Export earnings from seafood continued to increase significantly owing to higher exports to the EU market. However, despite an impressive increase in export volumes of tea, its earnings declined marginally during January 2019 as a result of lower average export prices of tea. Meanwhile, export earnings from spices, minor agricultural products and rubber declined.
- Earnings from mineral exports also increased in January 2019 led by the growth in ores, slag and ash exports.
- The export volume index increased notably by 13.7 per cent in January 2019 while the export unit value index declined by 5.4 per cent, implying that the growth in exports was driven entirely by higher volumes in comparison to January 2018.

Figure 3: Monthly Export Performance



Sources: SLC, CBSL

Figure 4: Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	Jan - Dec 2018 (US\$ mn)	Change 2018/17 (%)	January 2018 (US\$ mn)	January 2019 (US\$ mn)	Change Jan 19/Jan 18 (%)	Share (%)
1. Industrial exports	9,258.2	8.4	757.6	826.4	9.1	79.6
Food, beverages and tobacco	462.3	17.7	48.2	53.1	10.2	5.1
Animal fodder	107.8	34.5	7.1	16.8	137.2	1.6
Textiles and garments	5,317.7	5.7	434.8	475.9	9.5	45.8
o/w Garments	4,960.8	4.7	409.3	444.5	8.6	42.8
Textiles	260.1	26.6	18.5	22.9	23.7	2.2
Other made up textile articles	96.8	10.9	7.0	8.4	21.0	0.8
Rubber products	875.3	4.8	71.0	80.7	13.5	7.8
Gems, diamonds and jewellery	278.0	8.0	27.5	24.1	(12.3)	2.3
Machinery and mechanical appliances	434.8	17.3	29.7	36.8	23.9	3.5
Transport equipment	120.3	(25.9)	7.4	8.8	20.1	0.9
Petroleum products	622.1	43.2	52.7	37.5	(28.9)	3.6
Chemical products	166.8	13.9	12.5	14.9	18.6	1.4
Wood and paper products	140.5	1.2	11.3	12.1	6.8	1.2
Printing industry products	31.7	(35.2)	1.5	6.1	302.4	0.6
Leather, travel goods and footwear	147.7	(6.8)	13.0	13.1	0.7	1.3
Plastics and articles thereof	77.6	4.1	6.2	6.8	9.1	0.7
Base metals and articles	165.4	42.8	12.1	14.1	16.4	1.4
Ceramic products	31.3	(7.3)	2.0	2.4	23.7	0.2
Other	279.0	7.2	20.5	23.2	13.2	2.2
2. Agricultural exports	2,579.3	(6.8)	204.1	207.6	1.7	20.0
Tea	1,428.5	(6.6)	111.8	110.8	(0.9)	10.7
Rubber	31.6	(18.8)	4.1	2.8	(31.1)	0.3
Coconut	311.0	(10.6)	21.1	25.7	21.6	2.5
Spices	360.2	(11.3)	30.0	27.8	(7.3)	2.7
Vegetables	28.2	(0.8)	1.9	2.7	39.3	0.3
Unmanufactured tobacco	35.6	(2.5)	1.8	2.1	21.0	0.2
Minor agricultural products	118.4	(14.7)	10.5	8.4	(20.2)	0.8
Seafood	265.8	10.5	22.9	27.4	19.3	2.6
3. Mineral exports	34.4	(0.4)	1.4	2.4	66.2	0.2
4. Unclassified exports	17.8	5.8	2.2	1.7	(21.7)	0.2
Total exports	11,889.6	4.7	965.4	1,038.1	7.5	100.0

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

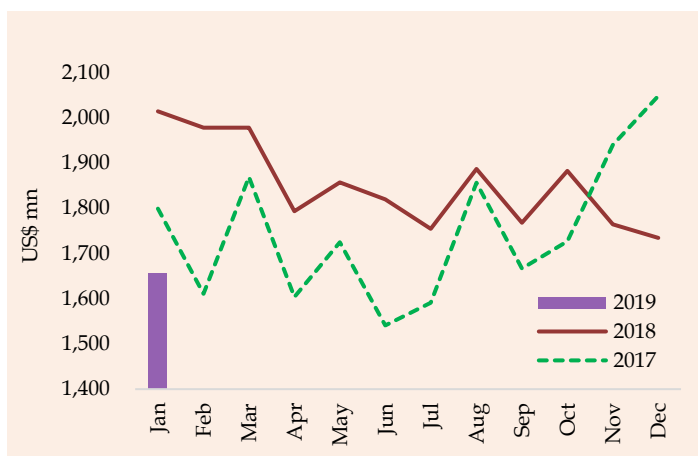
(a) Provisional

Performance of Merchandise Imports

- Expenditure on merchandise imports declined in January 2019 for the third consecutive month by 17.8 per cent (year-on-year) to US dollars 1,655 million, reflecting the effect of policy measures taken by the Central Bank and the government. All major import categories, namely intermediate goods, consumer goods and investment goods, contributed to this decline.
- Intermediate goods imports largely contributed to the decline in overall imports, mainly due to lower expenditure incurred on fuel, gold and fertiliser. Expenditure on fuel imports declined due to lower average import prices and lower volumes of crude oil and refined petroleum products despite a higher import volume of coal. Expenditure on gold imports, which declined since May 2018, following the imposition of customs duty on gold, remained at a negligible level in January 2019 as well. Expenditure on fertiliser imports also declined significantly, led by lower import volumes in all sub categories, particularly urea. Meanwhile, expenditure on wheat and maize, base metals and rubber and articles thereof contributed notably to the decline in intermediate goods in January 2019. However, import expenditure on textiles and textile articles increased, driven by fabric imports, while mineral products and agricultural inputs also increased during the month.
- Import expenditure on consumer goods declined, mainly due to lower expenditure on almost all subsectors under consumer goods except beverages and spices imports. Continuing the declining trend observed since November 2018 that reflected the impact of policy measures taken to curtail imports, expenditure on personal motor vehicle imports showed a significant decline. Expenditure on almost all non-food consumer goods imports decreased in January 2019 compared to the corresponding month of the previous year. However, considering the revision of excise duties in the Budget 2019, eased pressure on the exchange rate and other developments in the external sector, the Central Bank removed the margin deposit requirement on both vehicle and non-essential consumer goods imports against letters of credit (LC) effective from 7 March 2019 and on documents against acceptance (DA) terms effective from 12 March 2019. Meanwhile, expenditure on rice imports continued its declining trend in January 2019, with higher supply in the domestic market. Import expenditure on vegetables and dairy products also declined.

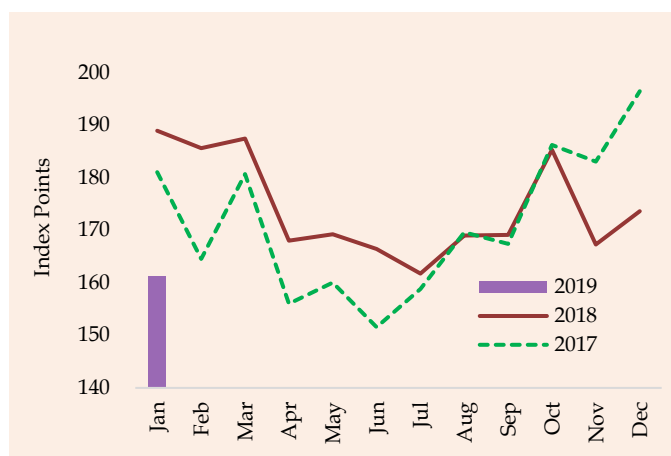
- Expenditure on the importation of investment goods also declined in January 2019, due to lower imports of all sub categories classified under investment goods. Lower expenditure on commercial cabs and auto trishaws categorised under transport equipment, and iron and steel categorised under building material, mainly led to this decline.
- In January 2019, the import volume and unit value indices decreased by 14.6 per cent and 3.7 per cent, respectively, indicating that the decline in imports was driven by low volumes as well as prices of imported goods in comparison to the corresponding period of 2018.

Figure 5: Monthly Import Performance



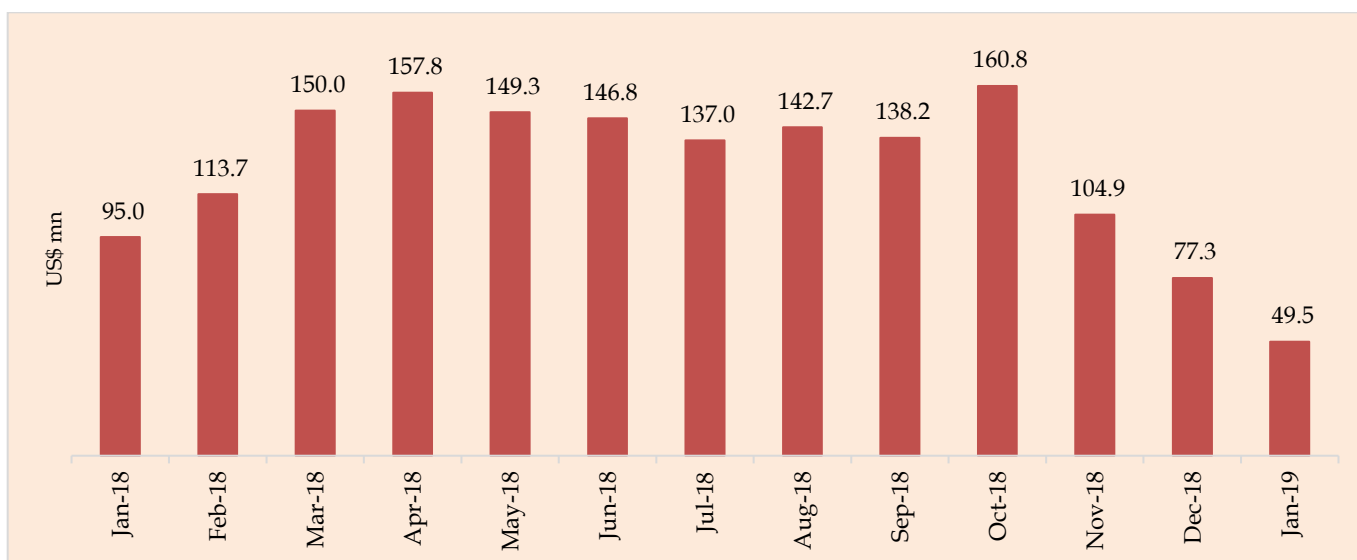
Sources: SLC, CBSL

Figure 6: Import Volume Index



Source: CBSL

Figure 7: Import Expenditure on Personal Motor Vehicles - 2018/19



Sources: SLC, CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	Jan - Dec 2018 (US\$ mn)	Change 2018/17 (%)	January 2018 (US\$ mn)	January 2019 (US\$ mn)	Change Jan 19/Jan 18 (%)	Share (%)
1. Consumer goods	4,979.7	10.6	441.5	300.5	(31.9)	18.2
Food and beverages	1,606.1	(12.8)	183.7	111.2	(39.5)	6.7
Cereals and milling industry products	126.2	(59.9)	33.2	4.0	(88.1)	0.2
o/w Rice	106.8	(64.5)	31.3	2.3	(92.5)	0.1
Dairy products	332.3	5.2	31.9	17.9	(44.0)	1.1
Vegetables	304.0	(17.4)	39.8	24.6	(38.2)	1.5
Seafood	197.2	(9.3)	20.6	18.4	(10.6)	1.1
Sugar and confectionery	249.7	(3.2)	27.6	14.9	(45.9)	0.9
Spices	114.0	22.9	7.5	8.8	16.3	0.5
Other food and beverages	282.7	3.0	23.0	22.6	(1.6)	1.4
Non-food consumer goods	3,373.6	26.8	257.8	189.3	(26.5)	11.4
Personal vehicles	1,573.5	103.6	95.0	49.5	(47.9)	3.0
Medical and pharmaceuticals	532.0	2.3	44.1	41.3	(6.4)	2.5
Home appliances	232.2	(10.1)	18.9	14.3	(24.4)	0.9
Clothing and accessories	310.3	(15.9)	37.5	28.4	(24.4)	1.7
Telecommunication devices	272.4	(3.1)	24.4	20.4	(16.4)	1.2
Household and furniture items	169.4	(9.0)	15.8	13.4	(15.4)	0.8
Other non-food consumables	283.8	3.5	22.0	22.1	0.3	1.3
2. Intermediate goods	12,488.0	9.2	1,133.3	956.1	(15.6)	57.8
Fuel	4,151.9	21.1	362.0	329.0	(9.1)	19.9
o/w Crude oil	978.1	38.9	103.4	87.8	(15.1)	5.3
Refined petroleum	2,937.2	19.3	223.9	186.0	(16.9)	11.2
Coal	236.6	(9.5)	34.7	55.2	59.0	3.3
Diamonds, precious stones and metals	572.7	(25.9)	104.7	16.6	(84.2)	1.0
o/w Gold	438.7	(32.5)	93.7	0.1	(99.9)	...
Textiles and textile articles	2,858.5	4.9	245.2	262.5	7.0	15.9
Paper and paperboard and articles thereof	529.4	9.3	43.1	38.6	(10.6)	2.3
Agricultural inputs	207.6	1.6	12.9	15.3	18.2	0.9
Wheat and maize	373.5	4.7	31.0	14.5	(53.3)	0.9
Base metals	682.8	8.6	59.6	46.7	(21.6)	2.8
Plastic and articles thereof	697.4	10.2	54.7	53.0	(3.3)	3.2
Chemical products	904.2	8.4	74.4	76.1	2.3	4.6
Fertiliser	261.6	154.4	42.4	3.7	(91.2)	0.2
Rubber and articles thereof	268.9	(6.6)	26.5	19.7	(25.7)	1.2
Other intermediate goods	979.5	...	76.6	80.6	5.1	4.9
3. Investment goods	4,690.4	(4.2)	436.9	398.5	(8.8)	24.1
Machinery and equipment	2,491.6	(4.9)	240.3	231.2	(3.8)	14.0
Building material	1,524.5	(4.2)	143.1	132.0	(7.8)	8.0
Transport equipment	668.1	(1.0)	52.7	34.8	(34.0)	2.1
Other investment goods	6.1	(22.4)	0.7	0.5	(23.6)	...
4. Unclassified imports	74.6	(49.1)	2.9	0.3	(88.6)	...
Total imports	22,232.7	6.0	2,014.5	1,655.5	(17.8)	100.0

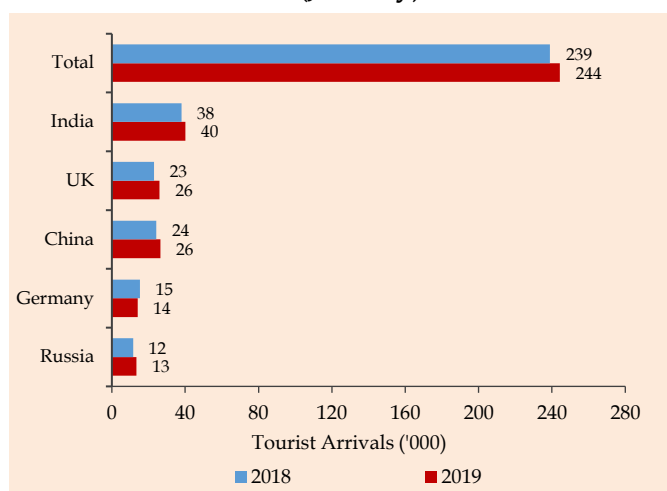
Sources: SLC, CPC, Lanka IOC PLC, CBSL

(a) Provisional

Other Major Inflows to the Current Account

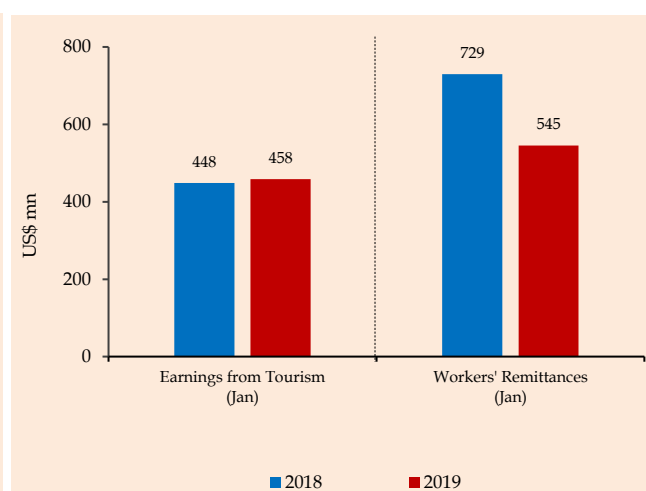
- Tourist arrivals recorded a growth of 2.2 per cent in January 2019, resulting in 244,239 arrivals during January 2019, compared to 238,924 arrivals in January 2018.
- India remained the leading source country for tourist arrivals in January 2019, followed by China, the UK, Germany and Russia.
- With the growth in tourist arrivals, earnings from tourism increased to US dollars 458 million in January 2019 in comparison to US dollars 448 million in January 2018.
- Workers' remittances declined substantially by 25.2 per cent, year-on-year, to US dollars 545 million in January 2019.

Figure 8: Top Five Countries of Tourist Arrivals (January)



Source: SLTDA

Figure 9: Earnings from Tourism and Workers' Remittances



Sources: SLTDA, Licensed Commercial Banks, CBSL

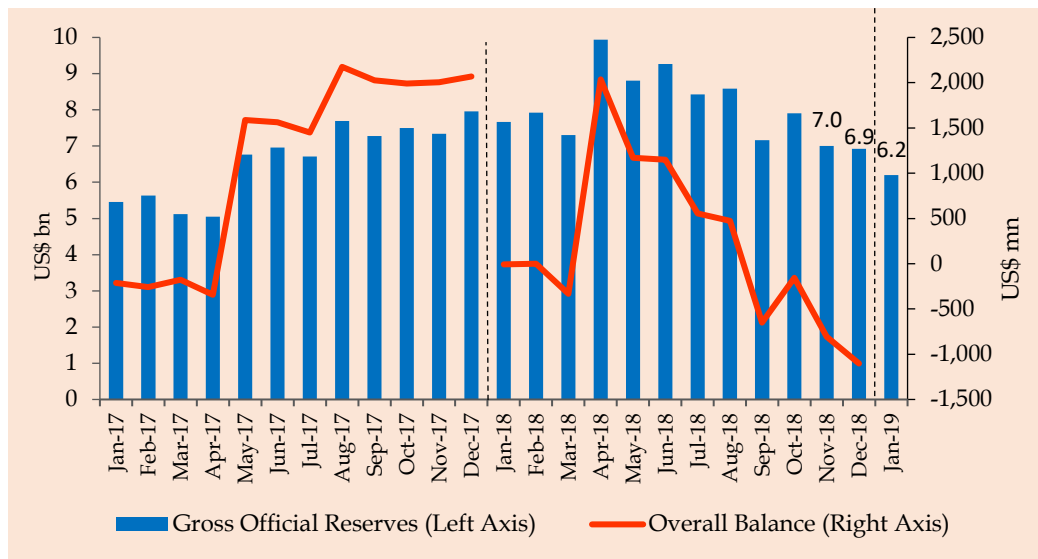
Financial Flows

- Foreign investments in the government securities market and the CSE witnessed reduced net outflows in January 2019. The government securities market recorded a net outflow of US dollars 29 million during the month. This is a notable reduction in outflows compared to a net outflow of US dollars 188 million in December 2018. The CSE recorded a net outflow of foreign investments of US dollars 14 million in January 2019, including both primary and secondary market transactions compared to a net outflow of US dollars 26 million in December 2018.
- Long term loans to the government recorded a net inflow of US dollars 78 million during January 2019. Loan inflows to the government increased significantly in January 2019 with loan inflows to major infrastructure projects resuming with the end of political uncertainty.

International Reserves

- As at end January 2019, gross official reserves were estimated at US dollars 6.2 billion, which was equivalent to 3.4 months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 8.7 billion as at end January 2019, which was equivalent to 4.8 months of imports. Subsequently, gross official reserves increased to US dollars 7.6 billion by end March 2019, equivalent to 4.3 months of imports, with the issuance of ISBs amounting to US dollars 2.4 billion.

Figure 10: Gross Official Reserves and Overall Balance

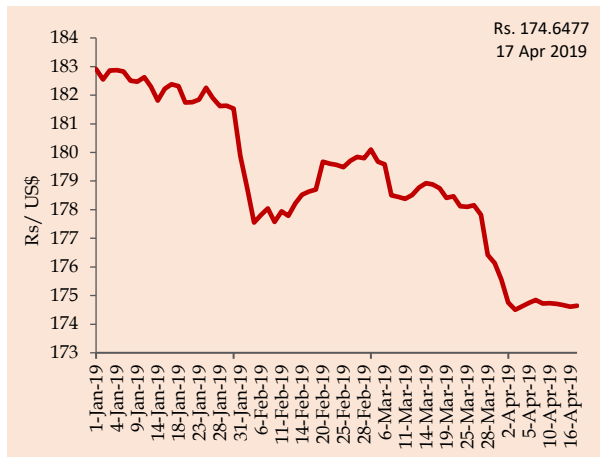


Source: CBSL

Exchange Rate Movements

- The Sri Lankan rupee appreciated by 4.6 per cent against the US dollar during 2019 up to 17 April 2019. Reflecting cross currency movements, the rupee appreciated against all other major currencies.

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 17 April) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+4.6%
Euro	-12.7%	+5.9%
Pound sterling	-11.4%	+1.7%
Japanese yen	-18.1%	+6.1%
Canadian dollar	-9.3%	+2.5%
Australian dollar	-7.6%	+2.6%
Indian rupee	-8.7%	+4.0%

Source: CBSL