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இலங்கை மத்திய வங்கி
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Press Release

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External Sector Performance – February 2019

Highlights

- In February 2019, the deficit in the trade account narrowed further to US dollars 451 million, recording the lowest monthly trade deficit in more than 5 years.
- The considerable reduction in the trade deficit was due to the notable decline in import expenditure by 27.6 per cent (year-on-year) and increased earnings from exports by 7.2 per cent (year-on-year) in February 2019.
- Earnings from tourism continued its robust performance, registering over 240,000 tourist arrivals per month since December 2018 and recording a growth of 7.0 per cent (year-on-year) in February 2019.
- Workers' remittances declined by 12.4 per cent (year-on-year) in February 2019, to US dollars 500 million.
- Positive developments were observed in the financial account with net inflows of foreign investments to the government securities market in February 2019, although some net outflows were observed from the Colombo Stock Exchange (CSE).
- Along with the significant reduction in the trade deficit, inflows to the financial account, the restoration of market confidence following the repayment of the International Sovereign Bond (ISB) of US dollars 1 billion in January 2019, the successful staff level negotiations on the continuation of the Extended Fund Facility of the International Monetary Fund (IMF - EFF) as well as the more patient approach

to monetary policy in advanced economies including the US Federal Reserve, the Sri Lankan rupee appreciated against the US dollar by 1.6 per cent by end February 2019. The exchange rate further appreciated thereafter, recording an appreciation of 4.8 per cent, up to 22 April 2019.

- The country's gross official reserves stood at US dollars 6.0 billion, which was equivalent to 3.4 months of imports at end February 2019. Subsequently, along with the proceeds of the ISBs, gross official reserves are estimated to have increased to US dollars US dollars 7.6 billion by end March 2019.
- Meanwhile the government repaid the ISBs of US dollars 1 billion that matured in January 2019 and of US dollars 500 million that matured in the second week of April 2019, as scheduled.

Table 1: Summary of External Sector Performance (a)

Category	February 2018 US\$ mn	February 2019 US\$ mn	Change (%)	Jan-Feb 2018 US\$ mn	Jan-Feb 2019 US\$ mn	Change (%)
Exports	916	981	7.2	1,881	2,019	7.3
Imports	1,978	1,432	-27.6	3,992	3,088	-22.7
Trade balance (net)	-1,062	-451		-2,111	-1,069	
Earnings from tourism (b)	442	473	7.0	891	932	4.6
Workers' remittances	572	500	-12.4	1,301	1,046	-19.6
Inflows to the CSE (net) (c)	18	-15 (d)		54	-29 (d)	
Inflows to the Government (gross)	290	230		583	511	
Treasury bills and bonds	95	95		265	167	
Long term loans	195	135		318	344	
Syndicated loans	-	-		-	-	
International Sovereign Bonds	-	-		-	-	
IMF-EFF receipts	-	-		-	-	
Overall Balance				-0.4	-858	

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

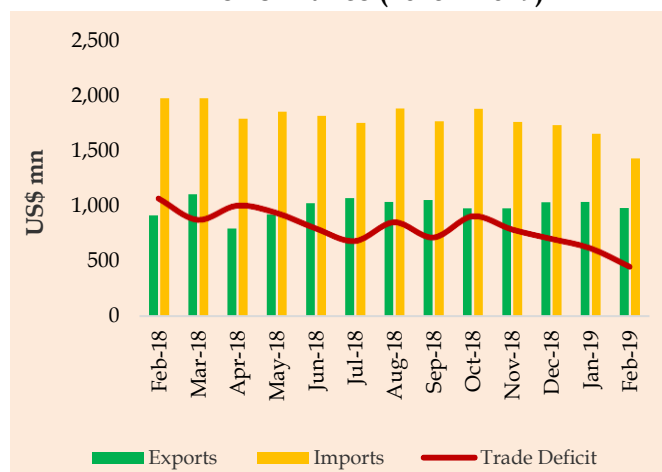
(c) Include secondary and primary market transactions

(d) Primary market transactions data is available only for January 2019

Trade Balance and Terms of Trade

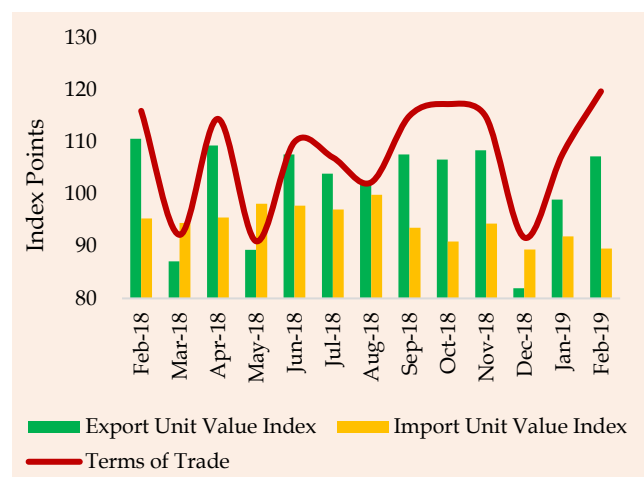
- Recording its lowest value since October 2013, the deficit in the trade account narrowed noticeably in February 2019 in comparison to the corresponding month of the previous year due to increased export earnings and the significant reduction in imports. The decline in imports indicates the impact of the policy measures introduced by the Central Bank and the government to discourage certain imports with the intention of mitigating the excessive pressure on the BOP and the exchange rate. On a cumulative basis, the deficit in the trade account contracted significantly during the first two months of 2019 in comparison to the corresponding period of 2018.
- Meanwhile, terms of trade, which represent the relative price of imports in terms of exports, improved by 2.9 per cent (year-on-year) to 119.7 index points in February 2019 due to the slower decline in export prices in comparison to the decline in import prices.

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



Sources: SLC, CBSL

Figure 2: Terms of Trade (2018 - 2019)



Source: CBSL

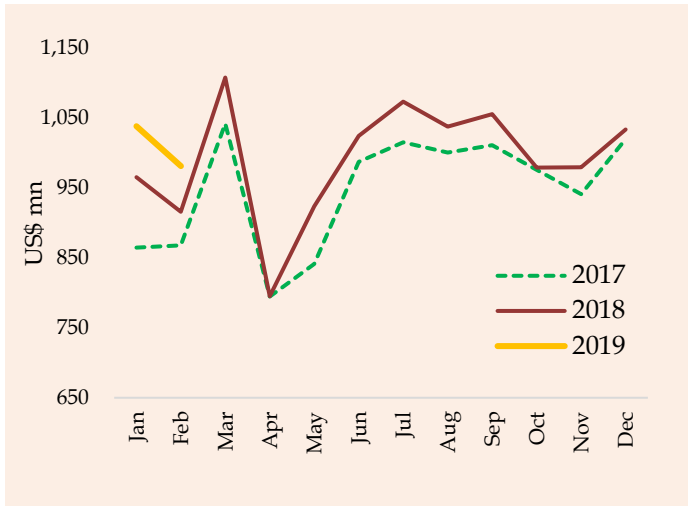
Performance of Merchandise Exports

- Earnings from merchandise exports increased by 7.2 per cent (year-on-year) to US dollars 981 million in February 2019. The growth in exports was largely driven by the improved performance in industrial exports followed by the marginal recovery in agricultural exports.
- Under industrial exports, earnings from textiles and garment exports increased notably in February 2019, mainly due to higher demand for garment exports from traditional markets, namely the USA and the EU, as well as non-traditional markets

such as India, Japan, Canada and China. Export earnings from textiles and other textile articles also increased significantly in February 2019. Further, export earnings from food, beverages and tobacco increased during the month owing to the improved performance in all sub categories except cereal preparations. Export earnings from base metals and articles, gems, diamonds and jewellery, rubber products, wood and paper products, animal fodder, and machinery and mechanical appliances also contributed towards the increase in industrial exports in February 2019. However, export earnings from petroleum products, which increased significantly during the previous year, declined in February 2019 for the third consecutive month, mainly due to lower earnings from bunker and aviation fuel exports. In addition, export earnings from leather, travel goods and footwear, transport equipment and plastics and articles thereof also declined in February 2019.

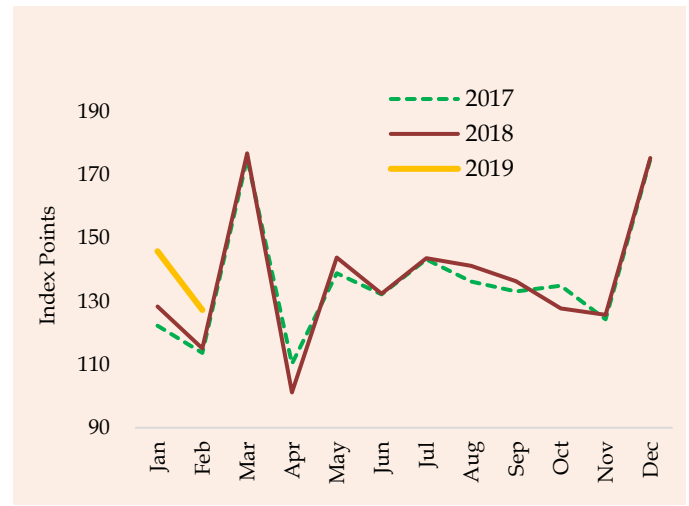
- Earnings from agricultural exports increased marginally, on a year-on-year basis, in February 2019, mainly due to the increased performance in spices, seafood and coconut exports. Export earnings from spices rose during the month with high export volumes of cloves and cinnamon. Further, export earnings from seafood continued to increase significantly, on a year-on-year basis, in February 2019, owing to higher demand from the EU market. Earnings from coconut exports increased due to the increase in export of coconut kernel products led by desiccated coconut, despite a decline recorded in export earnings from non-kernel coconut products. Meanwhile, export earnings from minor agricultural products and vegetables rose in February 2019. Although export volumes of tea increased in February 2019, export earnings from tea declined during the month due to lower average export prices.
- Export earnings from mineral exports declined due to the poor performance recorded in all sub categories.
- The export volume index in February 2019 increased by 11.0 per cent while the export unit value index decreased by 3.4 per cent, implying that the growth in export earnings was driven mainly by the increased volume, rather than the price, compared to the volume and unit value indices in February 2018.

Figure 3: Monthly Export Performance



Sources: SLC, CBSL

Figure 4: Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	February 2018 (US\$ mn)	February 2019 (US\$ mn)	Change (%)	Jan-Feb 2018 (US\$ mn)	Jan-Feb 2019 (US\$ mn)	Change (%)
1. Industrial exports	703.2	769.5	9.4	1,460.9	1,595.9	9.2
Food, beverages and tobacco	29.6	35.5	19.9	77.8	88.6	13.9
Animal fodder	7.8	9.7	24.9	14.9	26.6	78.4
Textiles and garments	407.0	465.6	14.4	841.8	941.5	11.8
o/w Garments	381.5	434.0	13.8	790.8	878.5	11.1
Textiles	18.1	23.3	28.9	36.6	46.3	26.3
Other made up textile articles	7.4	8.3	11.7	14.4	16.7	16.2
Rubber products	68.3	69.7	2.0	139.4	150.3	7.9
Gems, diamonds and jewellery	23.1	27.1	17.5	50.6	51.2	1.3
Machinery and mechanical appliances	31.4	32.2	2.7	61.1	69.1	13.0
Transport equipment	7.9	7.2	(8.6)	15.2	16.1	5.3
Petroleum products	45.5	38.6	(15.2)	98.2	76.0	(22.6)
Chemical products	12.6	13.2	5.0	25.1	28.1	11.8
Wood and paper products	12.2	15.4	26.8	23.5	27.5	17.2
Printing industry products	1.1	0.8	(31.4)	2.7	6.9	158.2
Leather, travel goods and footwear	14.8	10.6	(28.5)	27.8	23.7	(14.8)
Plastics and articles thereof	6.8	5.4	(21.2)	13.1	12.2	(6.7)
Base metals and articles	11.2	15.2	36.4	23.3	29.3	26.0
Ceramic products	2.2	2.4	7.8	4.1	4.8	15.3
Other	21.8	20.9	(4.1)	42.3	44.1	4.3
2. Agricultural exports	206.1	207.8	0.8	410.2	415.4	1.3
Tea	118.2	110.6	(6.4)	230.0	221.4	(3.8)
Rubber	4.1	2.3	(42.9)	8.1	5.1	(37.0)
Coconut	26.3	27.3	3.9	47.5	53.0	11.8
Spices	24.6	28.6	16.0	54.7	56.4	3.2
Vegetables	1.6	2.5	57.0	3.5	5.1	47.3
Unmanufactured tobacco	3.6	1.9	(48.7)	5.4	4.0	(25.9)
Minor agricultural products	8.2	9.3	13.5	18.7	17.7	(5.5)
Seafood	19.5	25.3	29.9	42.4	52.7	24.2
3. Mineral exports	4.8	2.2	(54.9)	6.2	4.6	(26.9)
4. Unclassified exports	1.5	1.6	10.5	3.7	3.4	(8.6)
Total exports	915.7	981.1	7.2	1,881.0	2,019.3	7.3

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

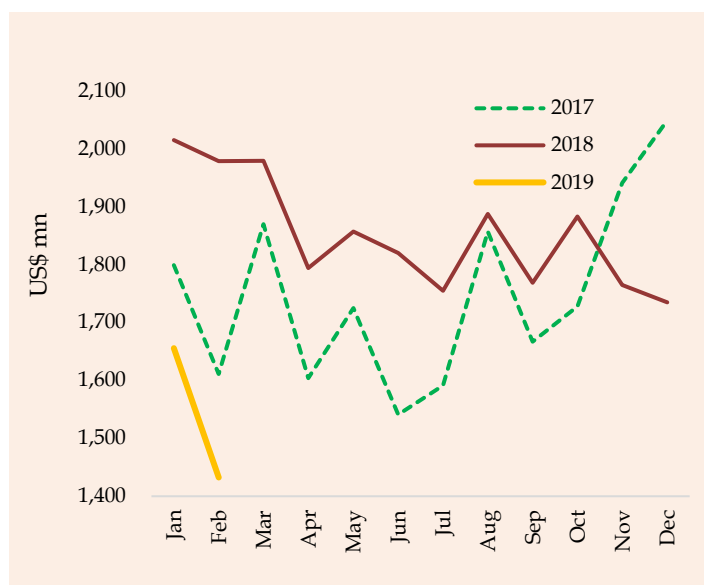
(a) Provisional

Performance of Merchandise Imports

- Reflecting the impact of policy measures implemented by the Central Bank and the government to discourage certain imports and the significant depreciation of the currency during the latter part of 2018, expenditure on merchandise imports declined significantly in February 2019, recording the lowest value since May 2014. Accordingly, expenditure on imports declined by 27.6 per cent (year-on-year) to US dollars 1,432 million, due to lower expenses incurred on all major import categories namely intermediate goods, consumer goods and investment goods. Total imports, excluding fuel, also declined significantly.
- Import expenditure on intermediate goods decreased in February 2019 due to lower imports of all sub categories except base metals. Expenditure on gold imports continued to be stagnant in February 2019 as well, reflecting the impact of the imposition of customs duty on gold in April 2018. Expenditure on fuel imports declined during the month owing to lower import volumes and prices of refinery products and coal. However, crude oil was imported during February 2019 as opposed to the non-importation of crude oil in February 2018 due to the closure of the refinery for maintenance purposes. Further, expenditure on textiles and textile articles declined during the month, mainly due to lower imports of fabrics. Meanwhile, expenditure on wheat and maize, chemical products, fertiliser and mineral products decreased in February 2019. However, import expenditure on base metals increased, mainly due to higher imports of iron and steel.
- Reflecting lower imports of most of the items in both food and beverages and non-food consumer goods, import expenditure on consumer goods declined significantly in February 2019. With the support of the policy measures implemented since August 2018, expenditure on personal motor vehicle imports declined significantly, on a year-on-year basis, for the third consecutive month in February 2019, mitigating the pressure on the external sector and the exchange rate. In addition, expenditure on most of the non-food consumer goods such as home appliances, clothing and accessories, telecommunication devices and household and furniture items declined during the month. Further, import expenditure on rice, sugar, dairy products, vegetables and seafood categorised under food and beverages category decreased during the month. However, expenditure on spices and beverages increased in February 2019.

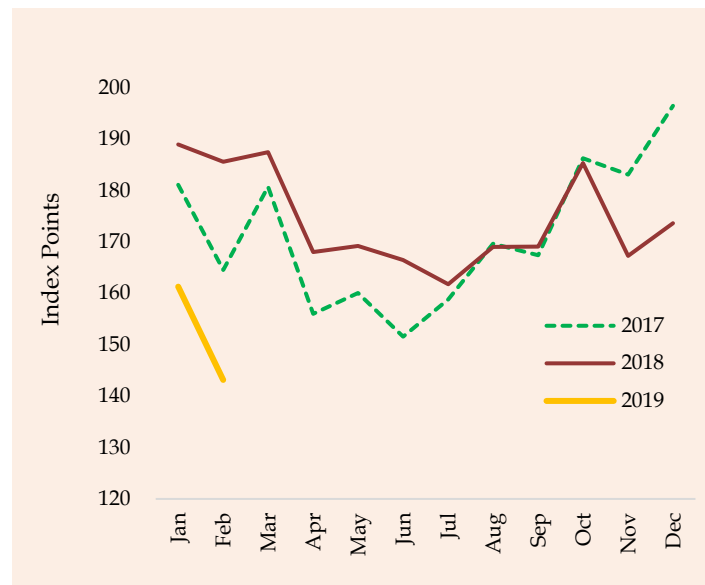
- Import expenditure on investment goods also declined in February 2019, with lower imports of all sub categories. Import expenditure on machinery and equipment decreased during the month, mainly due to lower imports of engineering equipment, printing machinery, textile industry machinery and office machines. Reflecting the lower imports of cement, plastic, rubber and glassware, and wood products, import expenditure on building material declined. Lower expenditure incurred on the importation of buses, lorries, auto trishaws and tankers and bowsers contributed largely to the reduction in expenditure on transport equipment in February 2019.
- Import volume and unit value indices decreased by 22.8 per cent and 6.1 per cent, respectively, in February 2019. Accordingly, the decline in import expenditure during the month was driven by the reduction in both volumes imported and price, in comparison to the corresponding period of 2018.

Figure 5: Monthly Import Performance



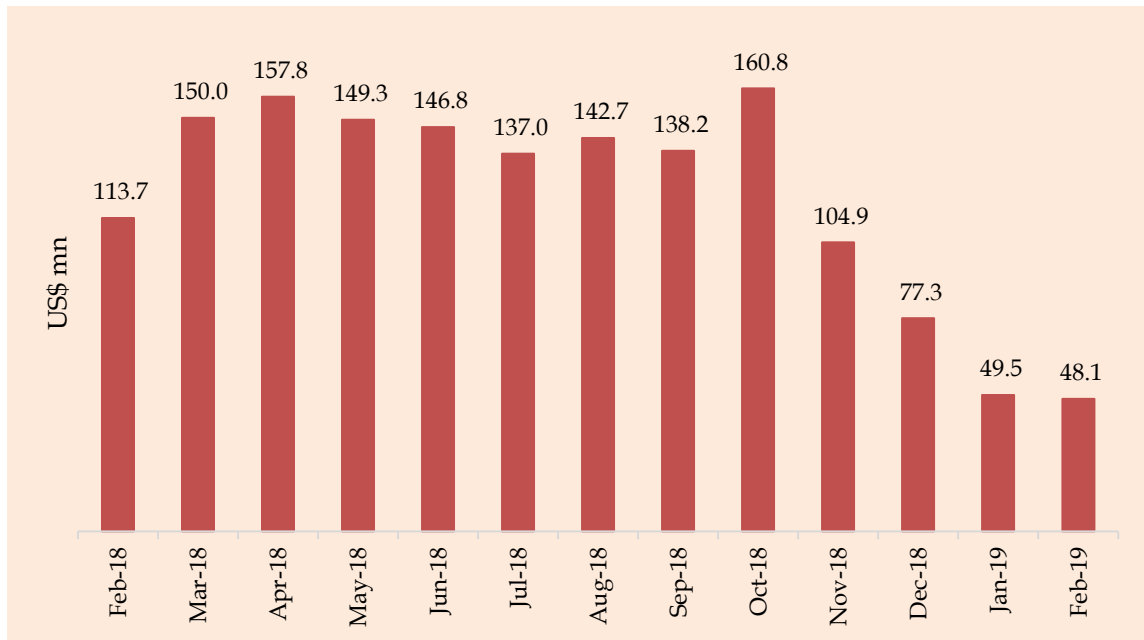
Sources: SLC, CBSL

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	February 2018 (US\$ mn)	February 2019 (US\$ mn)	Change (%)	Jan-Feb 2018 (US\$ mn)	Jan-Feb 2019 (US\$ mn)	Change (%)
1. Consumer goods	441.8	259.9	(41.2)	883.3	560.4	(36.6)
Food and beverages	165.3	85.7	(48.1)	349.0	196.9	(43.6)
Cereals and milling industry products	25.1	3.2	(87.3)	58.3	7.1	(87.7)
o/w Rice	23.5	1.0	(95.7)	54.8	3.3	(93.9)
Dairy products	26.9	6.1	(77.3)	58.8	24.0	(59.2)
Vegetables	30.7	19.9	(35.2)	70.5	44.5	(36.9)
Seafood	20.6	14.9	(28.0)	41.3	33.3	(19.3)
Sugar and confectionery	31.0	13.9	(55.2)	58.7	28.9	(50.8)
Spices	7.0	10.0	42.5	14.6	18.8	28.9
Other food and beverages	23.9	17.8	(25.8)	46.9	40.3	(14.0)
Non-food consumer goods	276.5	174.2	(37.0)	534.3	363.5	(32.0)
Personal vehicles	113.7	48.1	(57.7)	208.8	97.7	(53.2)
Medical and pharmaceuticals	38.5	36.4	(5.6)	82.6	77.7	(6.0)
Home appliances	28.4	15.4	(45.8)	47.3	29.7	(37.2)
Clothing and accessories	32.3	24.2	(25.1)	69.8	52.6	(24.7)
Telecommunication devices	24.2	18.4	(23.9)	48.6	38.8	(20.1)
Household and furniture items	17.3	11.4	(33.9)	33.1	24.8	(25.0)
Other non-food consumables	22.2	20.3	(8.5)	44.2	42.4	(4.1)
2. Intermediate goods	1,096.3	831.0	(24.2)	2,229.7	1,787.1	(19.8)
Fuel	315.2	281.8	(10.6)	677.2	610.8	(9.8)
o/w Crude oil	-	48.0	-	103.4	135.8	31.3
Refined petroleum	268.9	201.5	(25.1)	492.8	387.5	(21.4)
Coal	46.3	32.4	(30.1)	81.0	87.5	8.1
Diamonds, precious stones and metals	120.0	16.4	(86.4)	224.8	32.9	(85.4)
o/w Gold	111.9	0.7	(99.3)	205.7	0.8	(99.6)
Textiles and textile articles	247.3	212.2	(14.2)	492.5	474.7	(3.6)
Paper and paperboard and articles	40.7	31.0	(23.9)	83.8	69.6	(17.0)
Agricultural inputs	15.1	12.6	(16.7)	28.0	27.8	(0.6)
Wheat and maize	43.7	26.7	(38.9)	74.8	41.2	(44.9)
Base metals	47.9	59.4	24.1	107.5	106.1	(1.2)
Plastic and articles thereof	56.9	43.3	(23.8)	111.6	96.3	(13.7)
Chemical products	75.0	60.3	(19.7)	149.5	136.4	(8.7)
Fertiliser	20.3	5.3	(73.8)	62.7	9.1	(85.5)
Rubber and articles thereof	19.3	16.0	(17.3)	45.8	35.6	(22.1)
Other intermediate goods	94.8	66.0	(30.4)	171.5	146.6	(14.5)
3. Investment goods	380.5	341.0	(10.4)	817.4	739.5	(9.5)
Machinery and equipment	200.4	193.9	(3.2)	440.7	425.1	(3.5)
Building material	123.0	108.8	(11.6)	266.1	240.8	(9.5)
Transport equipment	56.2	38.0	(32.4)	108.9	72.8	(33.2)
Other investment goods	0.9	0.3	(70.0)	1.6	0.8	(50.2)
4. Unclassified imports	59.3	0.5	(99.1)	62.2	0.8	(98.7)
Total imports	1,978.0	1,432.4	(27.6)	3,992.5	3,087.9	(22.7)

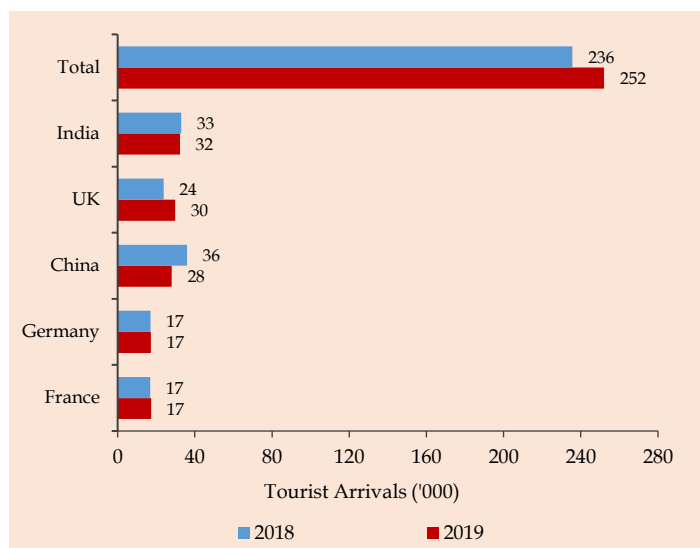
Sources: SLC, CPC, Lanka IOC PLC, CBSL

(a) Provisional

Other Major Inflows to the Current Account

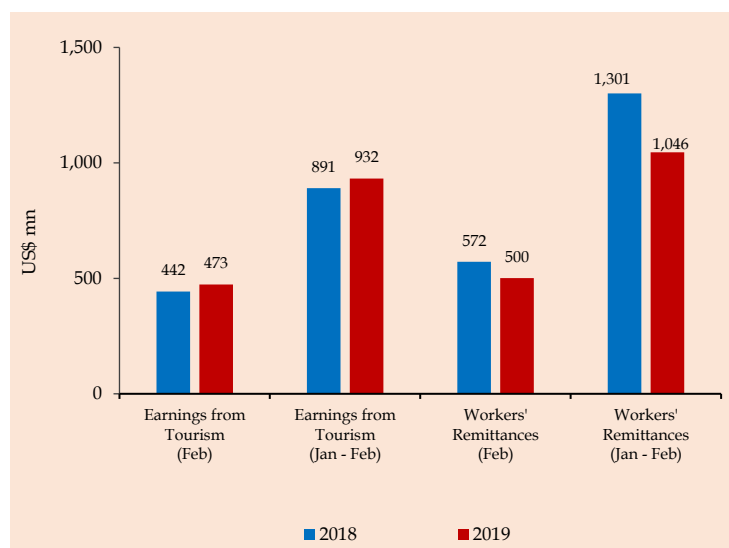
- Tourist arrivals in February 2019 recorded the second highest monthly arrivals in history at 252,033, registering a year-on-year growth of 7.0 per cent. This growth was mainly driven by tourists arriving from the UK, the USA, Australia and Canada.
- Tourist arrivals during the first two months of 2019 amounted to 496,272, a growth of 4.6 per cent over the corresponding period of 2018.
- Earnings from tourism in February 2019 were estimated at US dollars 473 million, with cumulative earnings amounting to US dollars 932 million during the first two months of 2019.
- Workers' remittances declined by 12.4 per cent, year-on-year, to US dollars 500 million in February 2019. On a cumulative basis, workers' remittances declined by 19.6 per cent to US dollars 1,046 million during the first two months of 2019 in comparison to the corresponding period of 2018.

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



Source: SLTDA

Figure 9: Earnings from Tourism and Workers' Remittances



Sources: SLTDA, Licensed Commercial Banks, CBSL

Financial Flows

- Foreign investments to the government securities market observed a net inflow in February 2019. Foreign investments to the government securities market amounted to a net inflow of US dollars 41 million in February 2019, resulting in a cumulative net inflow of US dollars 12 million during the first two months of 2019.
- Foreign investments in the CSE, including only secondary market transactions,

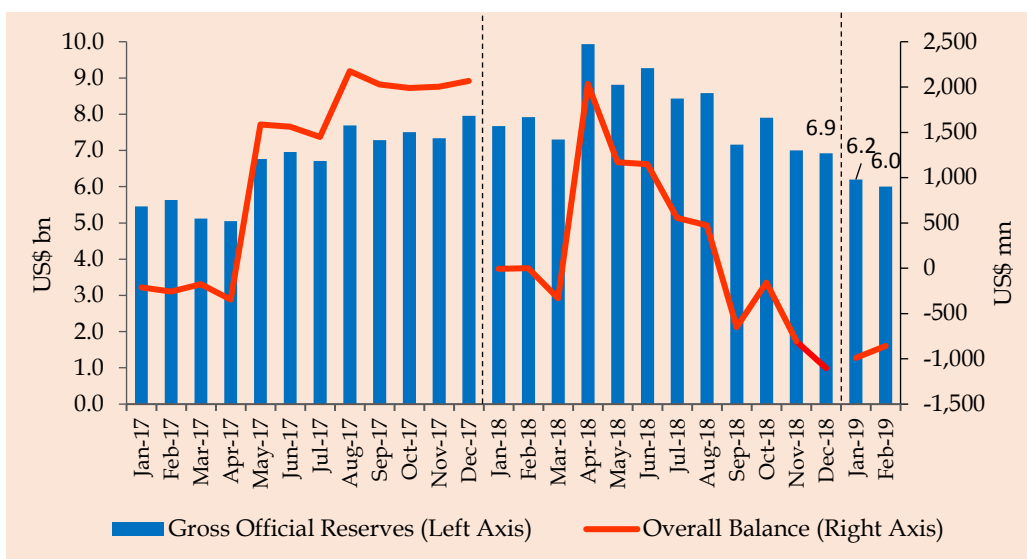
recorded a net outflow of US dollars 15 million during the month of February 2019. On a cumulative basis, the CSE recorded a net outflow of US dollars 29 million in the first two months of 2019 (excluding primary market transactions in February 2019).

- Long term loans to the government recorded a net inflow of US dollars 69 million during February 2019.

International Reserves

- As at end February 2019, gross official reserves were estimated at US dollars 6.0 billion, 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 February 2019, equivalent to 4.9 months of imports.
- Further, along with the proceeds of the ISBs, gross official reserves are estimated to have increased to US dollars 7.6 billion by end March 2019.

Figure 10: Gross Official Reserves and Overall Balance

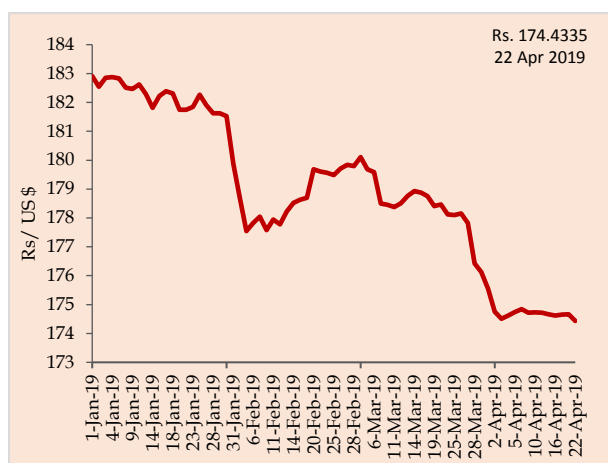


Source: CBSL

Exchange Rate Movements

- The Sri Lankan rupee appreciated by 4.8 per cent against the US dollar during 2019 up to 22 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 22 April) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+4.8%
Euro	-12.7%	+6.6%
Pound sterling	-11.4%	+2.3%
Japanese yen	-18.1%	+6.2%
Canadian dollar	-9.3%	+2.7%
Australian dollar	-7.6%	+3.4%
Indian rupee	-8.7%	+3.9%

Source: CBSL