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Press Release

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External Sector Performance – July 2019

Highlights

- The trade deficit widened in July 2019 as exports fell more than the decline in imports. Export earnings recorded a decline of 7.0 per cent (year-on-year) after a steady growth for several months while import expenditure declined by 2.2 per cent (year-on-year) in July 2019.
- The decline in export earnings in July 2019 can be largely attributed to a reduction in earnings from petroleum products due to lower prices of bunker fuel and the export of a naval craft in July 2018, which resulted in a higher export base in the corresponding month of the previous year.
- The trade deficit widened to US dollars 717 million in July 2019 compared to the deficit of US dollars 316 million recorded in June 2019.
- Tourist arrivals observed a notable recovery from the impact of the Easter Sunday attacks recording an increase of 83.4 per cent in July 2019 over the preceding month.
- Workers' remittances increased by 1.0 per cent (year-on-year) to US dollars 626 million in July 2019. On a cumulative basis, workers' remittances amounted to US dollars 3,895 million during the first seven months of 2019.
- Foreign investments in the CSE recorded a notable inflow, while some outflows were recorded from the government securities market in July 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>

- The country's gross official reserves stood at US dollars 8.3 billion by end July 2019, which was equivalent to 4.9 months of imports.

Table 1: Summary of External Sector Performance (a)

Category	July 2018 US\$ mn	July 2019 US\$ mn	Change (%)	Jan-July 2018 US\$ mn	Jan-July 2019 US\$ mn	Change (%)
Exports	1,073	999	-7.0	6,805	6,998	2.8
Imports	1,754	1,716	-2.2	13,196	11,312	-14.3
Trade balance (net)	-681	-717		-6,391	-4,314	
Earnings from tourism	409 (b)	217 (c)	-46.9	2,595 (b)	2,110 (c)	-18.7
Workers' remittances	619	626	1.0	4,243	3,895	-8.2
Inflows to the CSE (net) (d)	-3	44		50	34	
Inflows to the Government (gross)	73	98		3,947	5,628	
Treasury bills and bonds	29	40		582	417	
Long term loans	44	57		865	812	
International Sovereign Bonds	-	-		2,500	4,400	
IMF-EFF Receipts	-	-		252	164	
Foreign Direct Investment (e)				336	262	
Overall Balance				554	1,490	

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

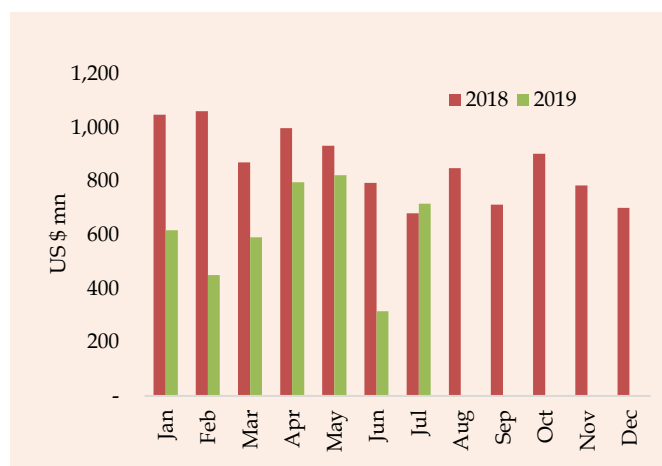
(d) Include secondary and primary market transactions

(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

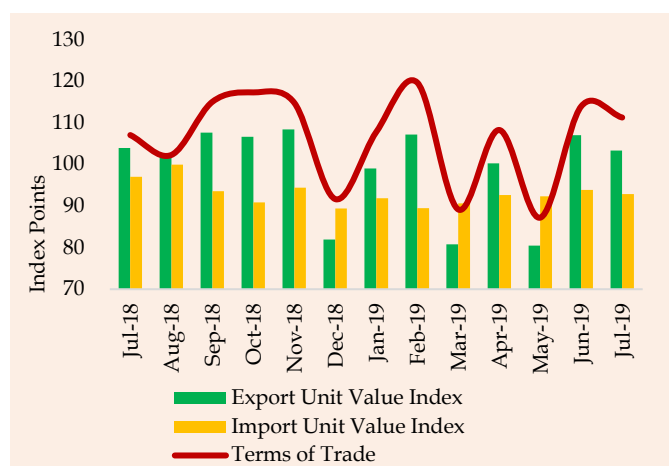
- The deficit in the trade account, which contracted significantly since November 2018, widened in July 2019, both on a year-on-year basis and month-on-month basis. In cumulative terms, the deficit in the trade account contracted by US dollars 2,076 million to US dollars 4,314 million during the first seven 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 3.9 per cent (year-on-year) 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 marginally by 0.8 per cent during the first seven 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)



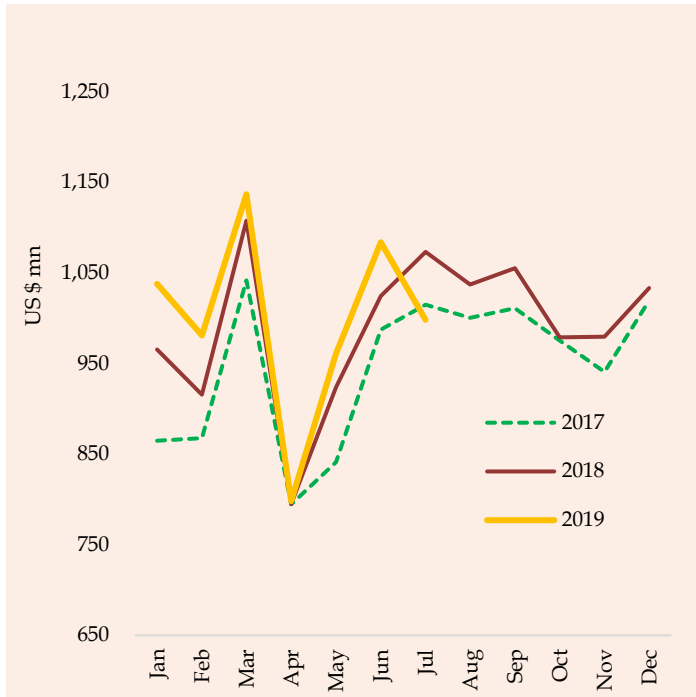
Source: CBSL

Performance of Merchandise Exports

- Earnings from merchandise exports declined by 7.0 per cent (year-on-year) to US dollars 999 million in July 2019 mainly due to a fall in industrial exports followed by agricultural exports.
- Earnings from industrial exports declined mainly due to the lower earnings from petroleum products reflecting the impact of lower prices of bunker fuels despite an increase in volumes as well as the base effect of higher direct exports of other petroleum products recorded in July 2018. Export earnings from transport equipment declined considerably by 77 per cent reflecting the base effect of supplying a naval craft to Japan in July 2018. Rubber products, leather, travel goods and footwear and printing industry products also declined. Meanwhile, export earnings from textiles and garments which recorded a monthly growth of 9.5 per cent on average in the first half of 2019, recorded a moderate growth of 2.1 per cent in July 2019.
- Earnings from agricultural exports decreased in July 2019 reflected by lower earnings from all subcategories except coconut, rubber and seafood. Earnings from tea exports declined due to the combined effect of low prices and volumes. Earnings from spices declined due to poor performance in cinnamon and pepper.
- Export earnings from mineral exports also declined in July 2019 in comparison to July 2018.

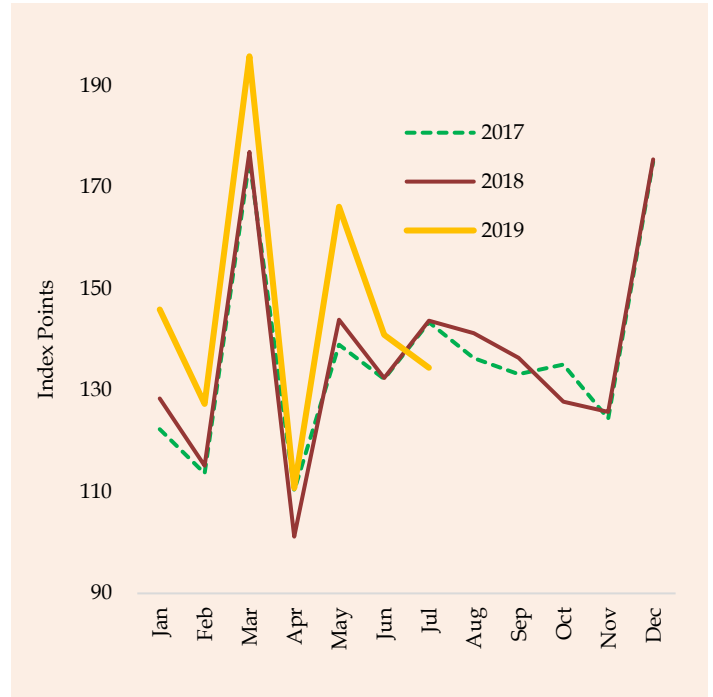
- The export volume index in July 2019 dropped by 6.4 per cent (year-on-year) while the export unit value index also declined by 0.5 per cent, indicating that the subdued performance of exports was driven by the reduction in both volumes and prices, in comparison to July 2018.

Figure 3: Monthly Export Performance



Sources: SLC, CBSL

Figure 4: Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	July 2018 (US\$ mn)	July 2019 (US\$ mn)	Change (%)	Jan-Jul 2018 (US\$ mn)	Jan-Jul 2019 (US\$ mn)	Change (%)
1. Industrial exports	843.6	789.5	(6.4)	5,277.3	5,518.1	4.6
Food, beverages and tobacco	38.8	36.7	(5.4)	271.1	270.0	(0.4)
Animal fodder	11.9	10.0	(15.8)	66.0	80.7	22.3
Textiles and garments	465.6	475.6	2.1	2,984.6	3,237.0	8.5
o/w Garments	435.2	443.4	1.9	2,786.0	3,014.2	8.2
Textiles	22.6	23.1	2.3	143.2	161.0	12.5
Other made up textile articles	7.9	9.1	15.6	55.4	61.8	11.5
Rubber products	77.4	76.3	(1.4)	503.8	518.4	2.9
Gems, diamonds and jewellery	19.4	24.7	26.9	170.9	175.6	2.8
Machinery and mechanical appliances	38.4	36.0	(6.3)	258.3	242.5	(6.1)
Transport equipment	31.4	7.2	(77.0)	82.4	114.5	38.9
Petroleum products	68.8	43.0	(37.5)	340.9	285.0	(16.4)
Chemical products	17.0	15.5	(8.8)	98.8	103.4	4.7
Wood and paper products	11.1	10.2	(8.2)	81.5	80.9	(0.7)
Printing industry products	4.2	0.7	(84.0)	14.4	24.0	66.7
Leather, travel goods and footwear	13.1	6.3	(52.0)	90.6	64.4	(29.0)
Plastics and articles thereof	5.6	6.2	11.6	44.2	42.6	(3.6)
Base metals and articles	14.7	16.4	11.5	91.7	107.1	16.7
Ceramic products	2.7	2.7	1.4	17.3	16.8	(3.1)
Other	23.5	22.1	(6.0)	160.7	155.2	(3.4)
2. Agricultural exports	225.7	205.1	(9.1)	1,498.0	1,450.2	(3.2)
Tea	125.2	111.3	(11.1)	854.2	796.3	(6.8)
Rubber	1.6	1.9	20.3	20.3	16.9	(16.8)
Coconut	28.2	30.9	9.6	178.3	204.1	14.5
Spices	34.3	26.5	(22.8)	184.0	170.1	(7.6)
Vegetables	3.5	2.5	(28.5)	16.0	18.5	15.0
Unmanufactured tobacco	3.0	2.8	(6.0)	19.8	19.4	(2.0)
Minor agricultural products	11.9	8.8	(26.0)	74.0	61.1	(17.5)
Seafood	18.0	20.4	13.1	151.4	164.0	8.3
3. Mineral exports	2.8	2.7	(1.8)	19.4	19.4	(0.0)
4. Unclassified	1.1	1.3	13.1	10.3	10.1	(2.3)
Total exports	1,073.2	998.5	(7.0)	6,805.0	6,997.7	2.8

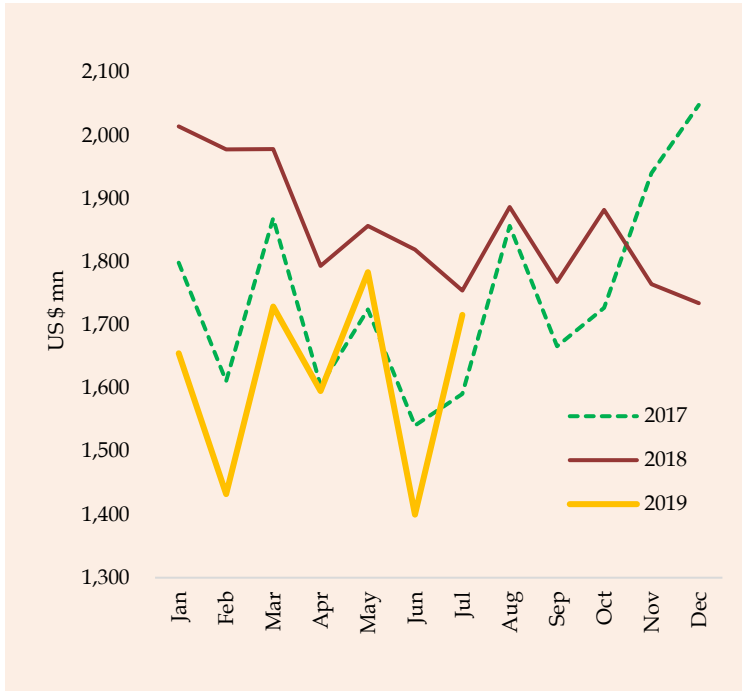
(a) Provisional

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

Performance of Merchandise Imports

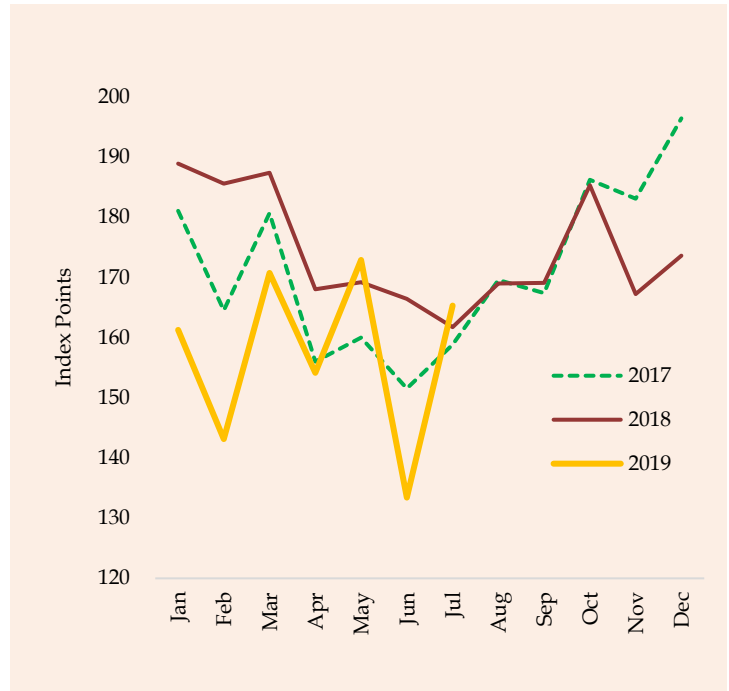
- Expenditure on merchandise imports contracted in July 2019 for the ninth consecutive month albeit at a lower rate of 2.2 per cent (year-on-year) to US dollars 1,716 million. Imports of consumer goods mainly contributed to the decline, followed by imports of intermediate goods.
- Expenditure on consumer goods imports declined reflecting the reduction in both food and beverages and non-food consumer goods. Lower imports of sugar and confectionary and beverages mainly contributed to the decline in imports of food and beverages while lower imports of personal motor vehicles resulted in the contraction in non-food consumer goods imports. However, on a month-on-month basis, import expenditure on personal motor vehicles almost doubled due to the importation of vehicles using concessionary permits following the withdrawal of the suspension placed on opening letters of credit for vehicles imported under the concessionary permit scheme.
- Imports of intermediate goods decreased marginally by 0.6 per cent in July 2019 mainly due to lower imports of base metals, fertiliser and paper and paper boards. Import expenditure on base metals reduced by 48.7 per cent which amounted to US dollars 47 million. However, fuel imports increased considerably due to a rise in the imported volume of crude oil. Import expenditure on wheat and maize and mineral products also increased.
- Meanwhile, imports of investment goods increased marginally in July 2019 due to higher imports of building material. Imports of iron and steel and cement mainly contributed to the increase in building material. However, imports of machinery and equipment and transport equipment declined during this period.
- The import volume index rose by 2.2 per cent while the unit value index dropped by 4.3 per cent indicating that the decline in imports was entirely driven by lower prices when compared to July 2018.

Figure 5: Monthly Import Performance



Sources: SLC, CBSL

Figure 6: Import Volume Index



Sources: CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	July 2018	July 2019	Change	Jan-Jul 2018	Jan-Jul 2019	Change
	(US\$ mn)	(US\$ mn)	(%)	(US\$ mn)	(US\$ mn)	(%)
1. Consumer goods	389.4	356.0	(8.6)	3,010.1	2,167.1	(28.0)
Food and beverages	112.5	109.3	(2.8)	1,019.5	799.2	(21.6)
Cereals and milling industry products	1.8	3.0	65.1	111.5	19.3	(82.7)
o/w Rice	0.4	1.0	177.9	100.5	7.0	(93.1)
Dairy products	23.6	26.5	12.4	190.3	178.1	(6.4)
Vegetables	25.1	23.8	(5.3)	195.1	165.1	(15.4)
Seafood	12.1	20.5	69.4	116.7	127.7	9.4
Spices	10.2	11.3	10.8	62.1	61.4	(1.2)
Sugar and confectionery	19.1	9.0	(52.6)	171.9	113.4	(34.1)
Beverages	7.1	4.7	(33.7)	50.2	46.2	(7.9)
Other food and beverages	13.5	10.5	(22.0)	121.7	88.0	(27.7)
Non-food consumer goods	276.9	246.8	(10.9)	1,990.6	1,367.9	(31.3)
Personal vehicles	137.0	95.4	(30.4)	949.7	419.6	(55.8)
Medical and pharmaceuticals	40.9	50.4	23.3	299.7	299.6	...
Telecommunication devices	18.7	26.0	39.5	160.0	141.2	(11.8)
Clothing and accessories	24.4	21.9	(10.4)	189.5	156.0	(17.7)
Home appliances	18.1	16.1	(10.9)	138.1	113.7	(17.7)
Household and furniture items	13.1	15.4	17.3	97.2	90.7	(6.8)
Other non-food consumables	24.7	21.5	(12.9)	156.3	147.1	(5.9)
2. Intermediate goods	975.3	969.6	(0.6)	7,295.2	6,516.0	(10.7)
Fuel	276.6	314.7	13.8	2,370.2	2,315.6	(2.3)
o/w Crude oil	55.1	94.1	70.8	486.4	585.4	20.4
Refined petroleum	221.5	220.5	(0.5)	1,736.6	1,604.9	(7.6)
Coal	...	0.1	219.9	147.2	1 25.3	(14.9)
Diamonds, precious stones and metals	13.3	21.4	61.3	508.4	109.5	(78.5)
o/w Gold	0.1	0.1	2.3	437.9	1.7	(99.6)
Textiles and textile articles	249.6	248.6	(0.4)	1,610.1	1,643.4	2.1
Chemical products	78.5	75.2	(4.2)	524.6	486.7	(7.2)
Plastic and articles thereof	58.8	55.0	(6.5)	411.8	344.9	(16.2)
Base metals	91.9	47.1	(48.7)	381.0	324.6	(14.8)
Paper and paperboard and articles thereof	47.5	42.3	(11.0)	297.8	253.5	(14.9)
Wheat and maize	19.0	35.1	84.4	212.1	178.5	(15.8)
Vehicle and machinery parts	23.2	24.2	4.5	175.2	158.0	(9.8)
Mineral products	13.0	17.3	32.6	98.1	125.7	28.1
Fertiliser	17.6	12.0	(31.8)	138.7	105.3	(24.1)
Unmanufactured tobacco	12.8	8.2	(35.6)	44.5	32.5	(26.9)
Other intermediate goods	73.5	68.5	(6.8)	522.7	437.6	(16.3)
3. Investment goods	386.3	389.9	0.9	2,818.7	2,625.5	(6.9)
Machinery and equipment	216.4	193.5	(10.6)	1,480.3	1,425.8	(3.7)
Building material	119.6	148.8	24.4	878.8	874.2	(0.5)
Transport equipment	50.0	46.8	(6.4)	455.9	321.3	(29.5)
Other investment goods	0.4	0.9	137.6	3.7	4.1	11.0
4. Unclassified imports	3.5	0.4	(88.7)	71.5	3.4	(95.3)
Total imports	1,754.5	1,715.9	(2.2)	13,195.5	11,311.9	(14.3)

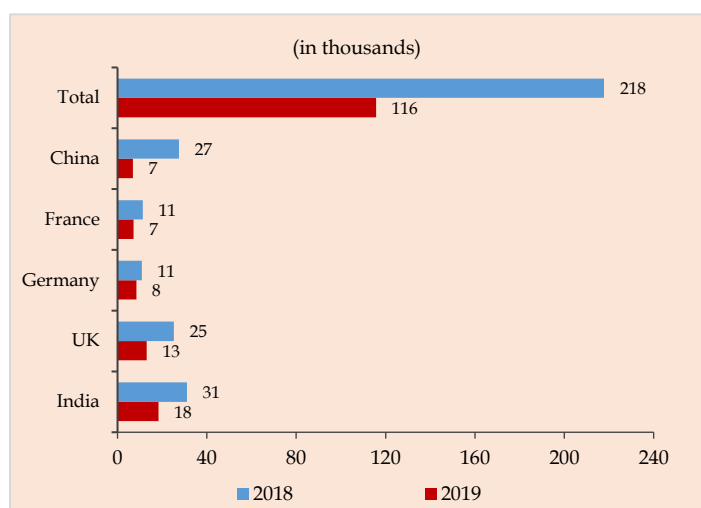
(a) Provisional

Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

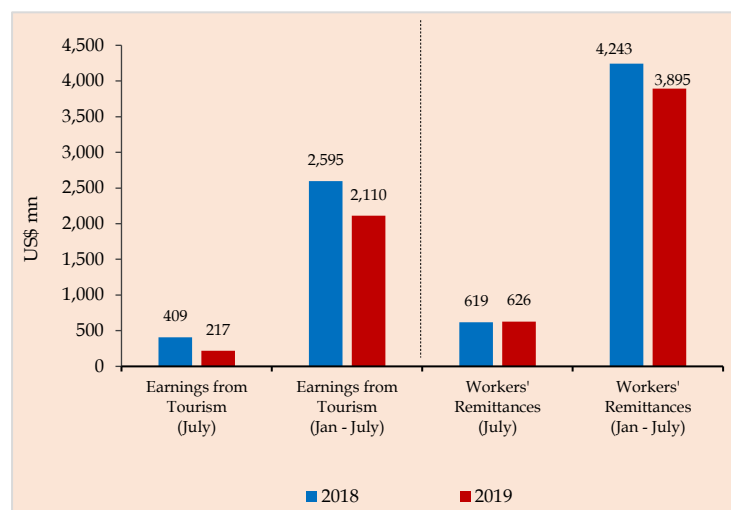
- Tourist arrivals continued to recover steadily from the impact of the Easter Sunday attacks. Accordingly, arrivals increased by 83.4 per cent to 115,701 in July 2019 from 63,072 in June 2019. Meanwhile, the year-on-year decline of arrivals narrowed to 46.9 per cent in July 2019 compared to the drop of 57.0 per cent in June and 70.8 per cent in May 2019. The decline in the number of tourists from key destinations such as China, Netherlands, the United Kingdom and India mainly contributed to the drop in tourist arrivals on year-on-year basis.
- Earnings from tourism were estimated at US dollars 217 million in July 2019, in comparison to US dollars 409 million in July 2018. In cumulative terms, earnings from tourism were estimated at US dollars 2,110 million during the first seven months of 2019 compared to US dollars 2,595 million during the corresponding period of 2018.
- Meanwhile, workers' remittances grew by 1.0 per cent, year-on-year, to US dollars 626 million in July 2019. On a cumulative basis, workers' remittances declined by 8.2 per cent to US dollars 3,895 million during the first seven months of 2019 in comparison to the corresponding period of 2018.

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



Source: SLTDA

Figure 8: Earnings from Tourism and Workers' Remittances



Sources: SLTDA, Licensed Commercial Banks, CBSL

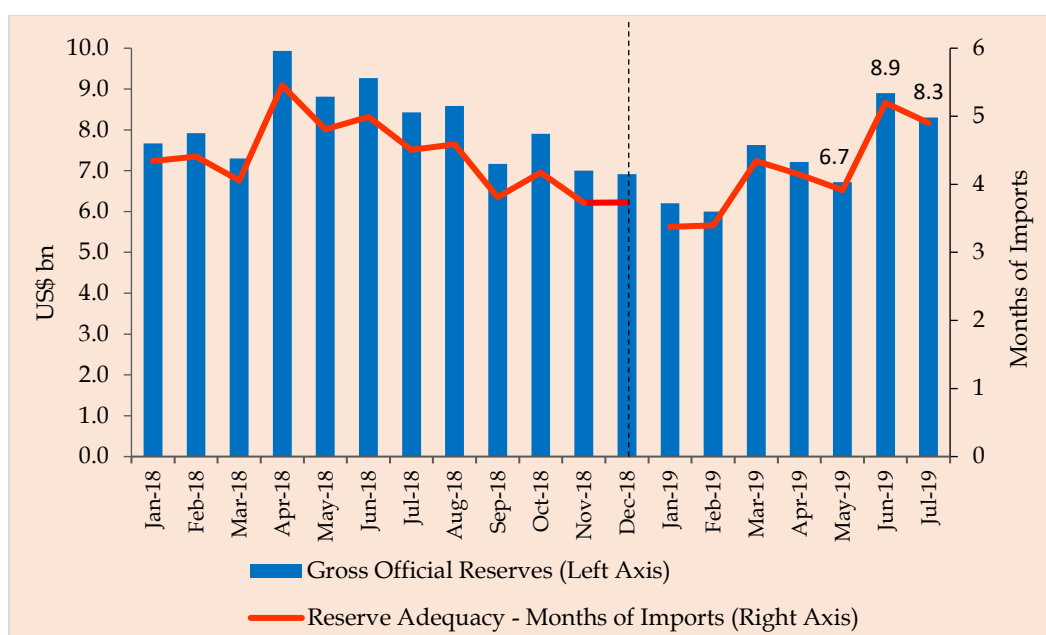
Financial Flows

- Foreign investments in government securities recorded a net outflow of US dollars 33 million in July 2019. On a cumulative basis, net outflows from the government securities market amounted to US dollars 129 million during the first seven months of the year.
- Foreign investments in the CSE, including primary and secondary market transactions, recorded a net inflow of US dollars 44 million during the month of July 2019. Accordingly, financial flows to the CSE recorded a net inflow of US dollars 34 million during the first seven months of 2019.
- Further, long term loans to the government recorded a net outflow of US dollars 86 million during July 2019.

International Reserves

- Gross official reserves stood at US dollars 8.3 billion by end July 2019, equivalent to 4.9 months of imports. Meanwhile, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector amounted to US dollars 11.0 billion as at end July 2019, which was equivalent to 6.5 months of imports.

Figure 9: Gross Official Reserves and Reserve Adequacy

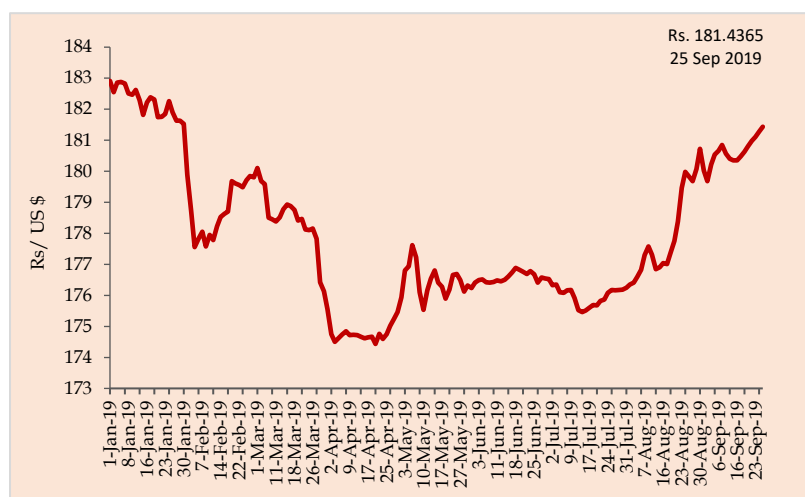


Source: CBSL

Exchange Rate Movements

- The Sri Lankan rupee appreciated by 0.7 per cent against the US dollar during the year up to 25 September 2019. Reflecting cross-currency movements, the rupee appreciated against other major currencies except for the Japanese yen and 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 25 Sep) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+0.7%
Euro	-12.7%	+4.7%
Pound sterling	-11.4%	+2.5%
Japanese yen	-18.1%	-2.2%
Canadian dollar	-9.3%	-2.1%
Australian dollar	-7.6%	+4.5%
Indian rupee	-8.7%	+2.2%

Source: CBSL