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Press Release

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External Sector Performance – October 2019

Highlights

The trade deficit contracted in October 2019 (year-on-year), with the decline in expenditure on imports and a marginal decline in earnings from exports. The trade deficit contracted during the first ten months of 2019 compared to the corresponding period in 2018, as a result of the notable decline in cumulative expenditure on imports along with increased cumulative earnings from exports. Meanwhile, the drop in tourist arrivals was contained further in October 2019. Workers' remittances improved (year-on-year) in October 2019, although a cumulative decline was recorded. In the financial account, foreign investment in the CSE recorded a net outflow while the government securities market recorded a marginal net inflow in October 2019. The exchange rate recorded mixed movements during the month of October and remained appreciated against the US dollar so far during the year.

External Sector Performance – October 2019: Highlights

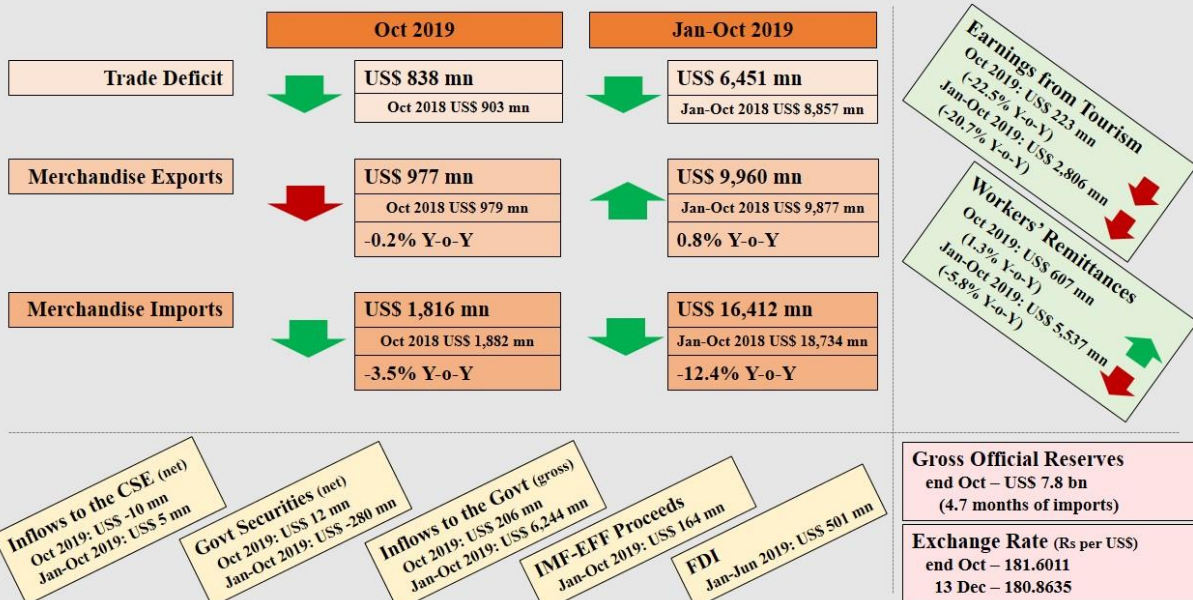


Table 1: Summary of External Sector Performance (a)

Category	October 2018 US\$ mn	October 2019 US\$ mn	Change (%)	Jan-Oct 2018 US\$ mn	Jan-Oct 2019 US\$ mn	Change (%)
Exports	979	977	-0.2	9,877	9,960	0.8
Imports	1,882	1,816	-3.5	18,734	16,412	-12.4
Trade balance (net)	-903	-838		-8,857	-6,451	
Earnings from tourism	287 (b)	223 (c)	-22.5	3,538(b)	2,806 (c)	-20.7
Workers' remittances	599	607	1.3	5,876	5,537	-5.8
Inflows to the CSE (net) (d)	-36	-10		1	5	
Inflows to the Government (gross)	1,091	206		5,404	6,244	
Treasury bills and bonds	17	57		698	511	
Long term loans	75	150		1,206	1,333	
Syndicated loans	1,000	-		1,000	-	
International Sovereign Bonds	-	-		2,500	4,400	
IMF-EFF receipts	-	-		252	164	
Foreign Direct Investment (e)				1,422	501	
Overall Balance				-157	667	

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

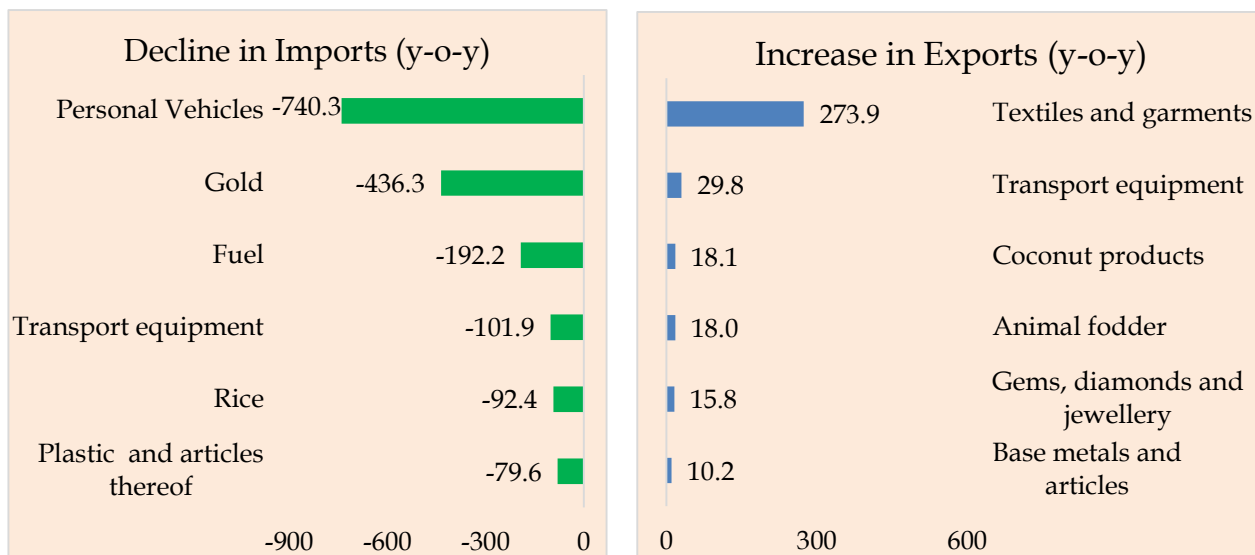
(d) Include secondary and primary market transactions

(e) Data available for the first six 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

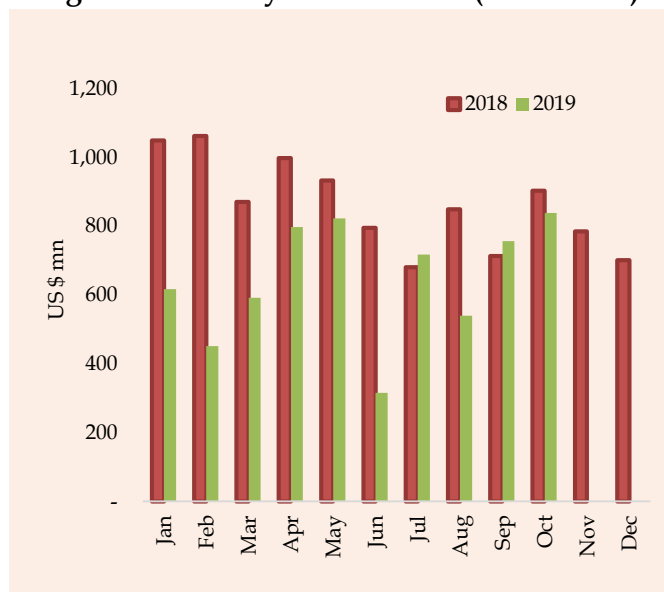
- The deficit in the trade account contracted in October 2019 to US dollars 838 million, from US dollars 903 million in October 2018. On a cumulative basis, the trade deficit contracted by US dollars 2,405 million to US dollars 6,451 million during the first ten months of 2019, in comparison to US dollars 8,857 million in the corresponding period of 2018. The major contributory factors for this decline are depicted in Figure 1.
- Meanwhile, the terms of trade, which represent the relative price of imports in terms of exports, deteriorated by 5.7 per cent (year-on-year) in October, as export prices declined at a faster pace than the decline in import prices. In cumulative terms, the terms of trade deteriorated by 0.8 per cent during the first ten months of 2019 in comparison to the corresponding period of 2018.

Figure 1: Major Contributory Factors for the Contraction in the Trade Deficit: Jan - Oct 2019 (USD million)



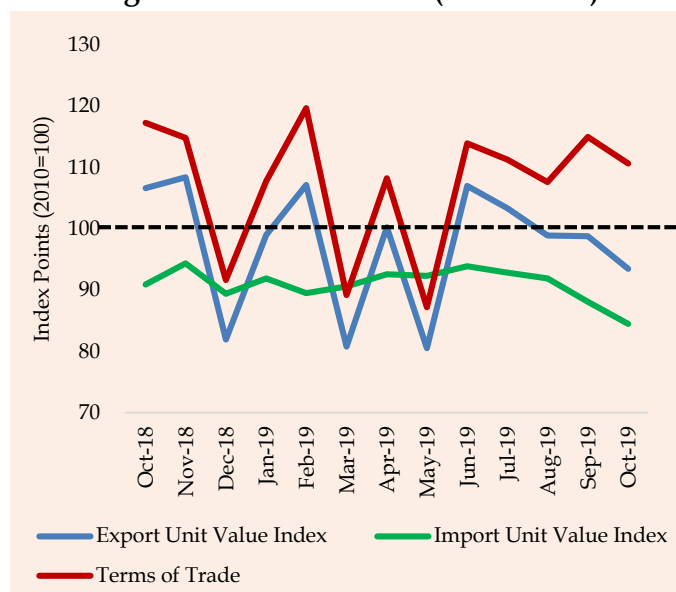
Sources: SLC, CBSL

Figure 2: Monthly Trade Deficit (2018 - 2019)



Sources: SLC, CBSL

Figure 3: Terms of Trade (2018 - 2019)



Source: CBSL

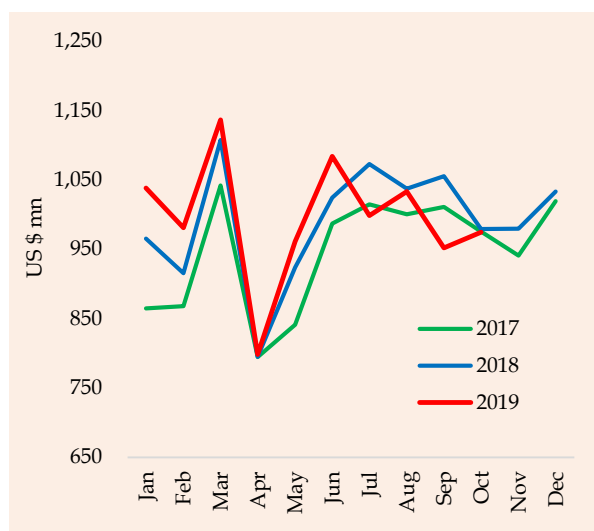
Performance of Merchandise Exports

- Earnings from merchandise exports declined marginally by 0.2 per cent (year-on-year) to US dollars 977 million in October 2019, as a result of lower agricultural exports.
- Decline in earnings from agricultural exports in October 2019 was driven by lower earnings from all sub-categories except minor agricultural products. Accordingly, earnings from tea exports declined due to lower average export prices in line with

the fall in international market prices despite an increase in export volumes. In addition, earnings from spices declined, mainly due to lower export prices of cinnamon and lower export volumes of cloves and pepper with the decline in supply. Earnings from seafood exports also declined significantly with lower demand from the US market.

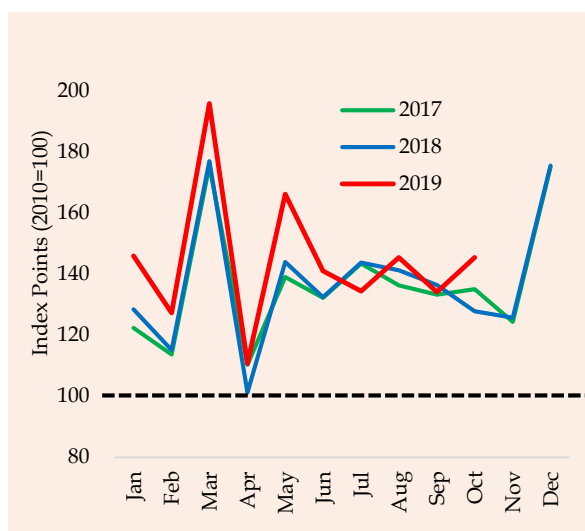
- Earnings from textiles and garments increased in October 2019 following the slight decline recorded in September 2019, on a year-on-year basis, supported by higher demand for garment exports from all major markets. However, earnings from petroleum product exports continued the declining trend observed in the recent past, mainly due to lower bunkering prices in line with lower crude oil prices in the international market.
- Earnings from mineral exports, which only account for 0.4 per cent of total exports, increased in October 2019, year-on-year, led by ores, slag and ash exports.
- The export volume index in October 2019 improved by 13.8 per cent (year-on-year), while the export unit value index declined by 12.3 per cent, indicating that the decline in exports was driven entirely by lower prices when compared to October 2018.

Figure 4: Monthly Export Performance



Sources: SLC, CBSL

Figure 5: Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	October 2018 (US\$ mn)	October 2019 (US\$ mn)	Change (%)	Jan-Oct 2018 (US\$ mn)	Jan-Oct 2019 (US\$ mn)	Change (%)
1. Industrial exports	757.4	762.1	0.6	7,657.0	7,839.0	2.4
Food, beverages and tobacco	42.7	38.7	(9.5)	389.9	376.0	(3.6)
Animal fodder	8.3	14.2	70.5	91.1	109.1	19.7
Textiles and garments	426.6	441.6	3.5	4,354.5	4,628.4	6.3
o/w Garments	395.8	407.9	3.1	4,062.7	4,305.6	6.0
Textiles	23.0	25.4	10.2	213.4	235.8	10.5
Other made up textile articles	7.8	8.3	6.9	78.4	87.0	11.0
Rubber products	71.4	70.3	(1.6)	727.6	732.5	0.7
Gems, diamonds and jewellery	24.3	30.0	23.5	238.8	254.6	6.6
Machinery and mechanical appliances	35.8	33.4	(6.6)	364.2	341.4	(6.2)
Transport equipment	7.1	7.8	8.6	105.4	135.2	28.3
Petroleum products	58.5	41.5	(29.1)	512.3	408.5	(20.3)
Chemical products	13.6	14.5	7.1	141.6	148.7	5.0
Wood and paper products	12.5	10.3	(18.0)	116.9	111.7	(4.4)
Printing industry products	1.5	5.4	258.5	24.8	38.5	55.1
Leather, travel goods and footwear	9.1	7.0	(23.2)	128.2	89.2	(30.4)
Plastics and articles thereof	6.6	6.2	(6.1)	63.9	61.3	(4.1)
Base metals and articles	15.0	13.4	(10.7)	138.5	148.7	7.3
Ceramic products	2.7	2.2	(20.3)	26.7	25.0	(6.6)
Other	21.5	25.7	19.5	232.6	230.3	(1.0)
2. Agricultural exports	217.3	210.2	(3.3)	2,175.0	2,079.1	(4.4)
Tea	115.5	113.8	(1.5)	1,208.2	1,139.1	(5.7)
Rubber	2.4	1.2	(50.8)	27.5	21.3	(22.7)
Coconut	28.6	26.3	(8.0)	266.7	284.8	6.8
Spices	33.2	32.6	(1.9)	302.5	267.4	(11.6)
Vegetables	3.0	2.9	(4.6)	23.9	27.0	12.6
Unmanufactured tobacco	2.5	2.2	(13.7)	29.2	28.0	(4.4)
Minor agricultural products	8.7	12.1	38.7	102.5	92.1	(10.1)
Seafood	23.3	19.2	(17.7)	214.4	219.6	2.4
3. Mineral exports	2.8	3.5	21.6	30.0	28.1	(6.3)
4. Unclassified exports	1.6	1.5	(5.5)	14.7	14.2	(3.6)
Total exports	979.1	977.3	(0.2)	9,876.7	9,960.5	0.8

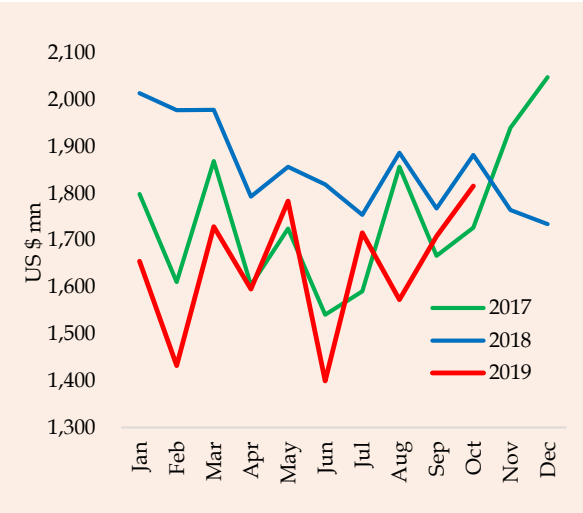
(a) Provisional

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

Performance of Merchandise Imports

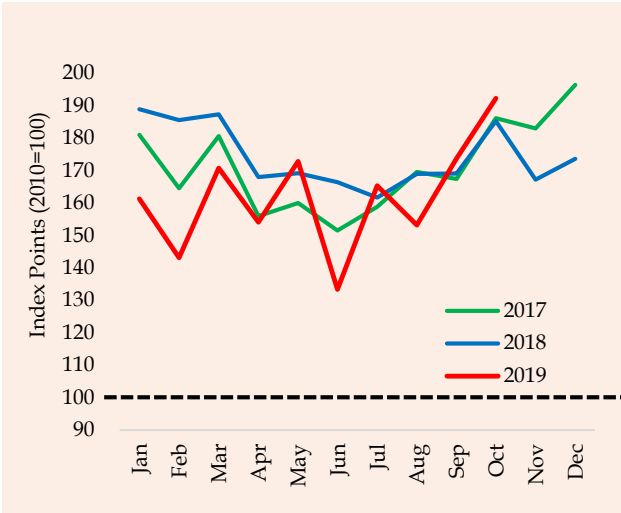
- Contraction of merchandise imports continued for the 12th consecutive month with a 3.5 per cent decline (year-on-year) in October 2019 to US dollars 1,816 million, driven by lower consumer and investment goods imports.
- Although food and beverages imports increased in October 2019, expenditure on consumer goods imports declined as a result of the decline in non-food consumer goods imports, driven by lower personal vehicle imports. However, motor vehicle imports remained at a relatively high level, on average, since July 2019 compared to values recorded during the first half of 2019, mainly reflecting the impact of the resumption of personal motor vehicle imports under concessionary permits. Meanwhile, expenditure on food and beverages imports increased, mainly driven by higher imports of onions to supplement lower domestic supply.
- Expenditure on imports of intermediate goods increased in October 2019, mainly due to expenditure on fuel, owing to higher volumes of imports of crude oil and coal, despite lower international prices. In addition, expenditure on base metals imports increased in October 2019, driven by iron and steel imports. However, import expenditure on wheat and maize declined mainly due to volume effect while textiles and textile articles declined marginally, led by lower yarn and fabric imports.
- Meanwhile, expenditure on investment goods imports declined in October 2019 with lower outlays in all sub categories amidst subpar growth in industry activities, including the spillover effects of the Easter Sunday attacks. Accordingly, expenditure on machinery and equipment declined, mainly related to textile industry and machinery parts, while expenditure on transport equipment declined with lower imports of commercial vehicles such as tractors, ambulances and auto trishaws. Expenditure on building materials declined due to lower imports of iron bars and rods although articles of iron and steel related to bridges and bridge sections continued to increase in October 2019.
- The import volume index increased by 3.8 per cent while the unit value index narrowed by 7 per cent in October 2019, indicating that the decline in imports was driven entirely by lower prices when compared to October 2018.

Figure 6: Monthly Import Performance



Sources: SLC, CBSL

Figure 7: Import Volume Index



Source: CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	October 2018 (US\$ mn)	October 2019 (US\$ mn)	Change (%)	Jan-Oct 2018 (US\$ mn)	Jan-Oct 2019 (US\$ mn)	Change (%)
1. Consumer goods	438.5	383.3	(12.6)	4,259.1	3,195.3	(25.0)
Food and beverages	121.2	128.9	6.3	1,360.4	1,138.2	(16.3)
Cereals and milling industry products	2.5	4.0	58.5	118.0	28.8	(75.6)
o/w Rice	1.0	1.5	53.1	102.5	10.1	(90.1)
Dairy products	29.5	25.5	(13.6)	273.6	250.4	(8.5)
Vegetables	20.6	29.6	43.9	256.1	237.2	(7.4)
Seafood	16.6	19.0	14.6	166.6	179.0	7.5
Sugar and confectionery	13.4	17.5	30.4	210.1	160.2	(23.8)
Spices	11.2	10.6	(5.9)	95.6	90.1	(5.8)
Beverages	9.6	9.3	(2.6)	73.8	67.6	(8.4)
Other food and beverages	17.9	13.4	(25.0)	166.7	124.9	(25.1)
Non-food consumer goods	317.3	254.4	(19.8)	2,898.7	2,057.1	(29.0)
Personal vehicles	160.8	84.6	(47.4)	1,391.4	651.0	(53.2)
Medical and pharmaceuticals	48.6	54.2	11.6	442.1	453.6	2.6
Clothing and accessories	22.8	26.9	18.2	260.1	230.6	(11.4)
Home appliances	23.0	19.2	(16.7)	199.3	165.7	(16.8)
Telecommunication devices	19.7	25.9	31.4	226.8	199.4	(12.1)
Household and furniture items	14.6	17.7	21.3	143.6	140.4	(2.3)
Other non-food consumables	27.8	26.0	(6.7)	235.5	216.4	(8.1)
2. Intermediate goods	1,017.5	1,040.2	2.2	10,430.3	9,420.7	(9.7)
Fuel	265.9	308.3	15.9	3,431.0	3,238.8	(5.6)
o/w Crude oil	62.0	95.0	53.3	776.0	824.3	6.2
Refined petroleum	200.9	192.4	(4.2)	2,504.6	2,245.2	(10.4)
Coal	3.1	20.9	579.7	150.4	169.2	12.5
Diamonds, precious stones and metals	13.2	19.0	43.2	542.9	158.1	(70.9)
o/w Gold	0.5	0.0	(99.5)	438.6	2.3	(99.5)
Textiles and textile articles	279.7	277.1	(0.9)	2,371.3	2,404.2	1.4
Chemical products	90.1	76.9	(14.7)	761.1	698.2	(8.3)
Plastic and articles thereof	64.0	61.0	(4.7)	585.8	506.1	(13.6)
Paper and paperboard and articles thereof	46.6	46.6	0.0	441.3	382.7	(13.3)
Base metals	46.6	69.1	48.2	519.8	477.8	(8.1)
Fertiliser	23.1	27.4	18.5	210.9	194.9	(7.6)
Wheat and maize	53.9	33.0	(38.8)	326.6	266.9	(18.3)
Food preparations	20.2	20.9	3.8	254.2	190.2	(25.2)
Agricultural inputs	17.5	14.9	(14.7)	170.9	155.6	(9.0)
Mineral products	20.8	26.4	26.5	158.2	185.4	17.2
Other intermediate goods	75.8	59.7	(21.3)	656.4	561.8	(14.4)
3. Investment goods	425.7	391.0	(8.2)	3,970.4	3,789.4	(4.6)
Machinery and equipment	233.5	218.2	(6.5)	2,112.1	2,034.9	(3.7)
Building material	138.7	133.8	(3.5)	1,279.4	1,277.2	(0.2)
Transport equipment	53.1	38.5	(27.4)	573.8	471.9	(17.8)
Other investment goods	0.5	0.4	(24.6)	5.1	5.3	3.7
4. Unclassified imports	0.7	1.2	75.8	73.7	6.4	(91.3)
Total imports	1,882.5	1,815.7	(3.5)	18,733.5	16,411.8	(12.4)

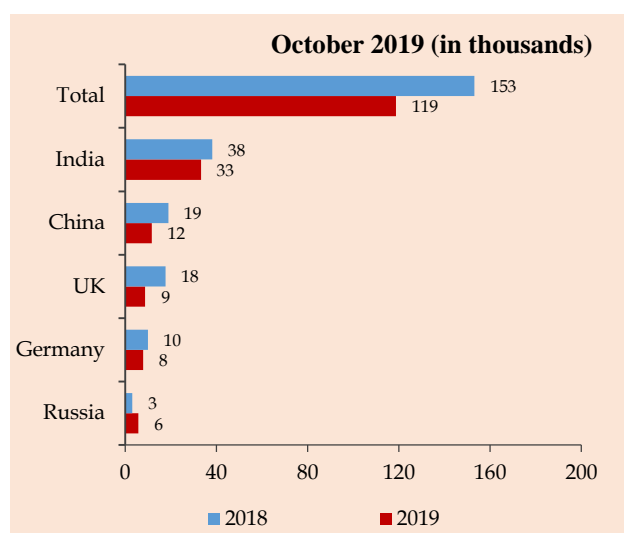
(a) Provisional

Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

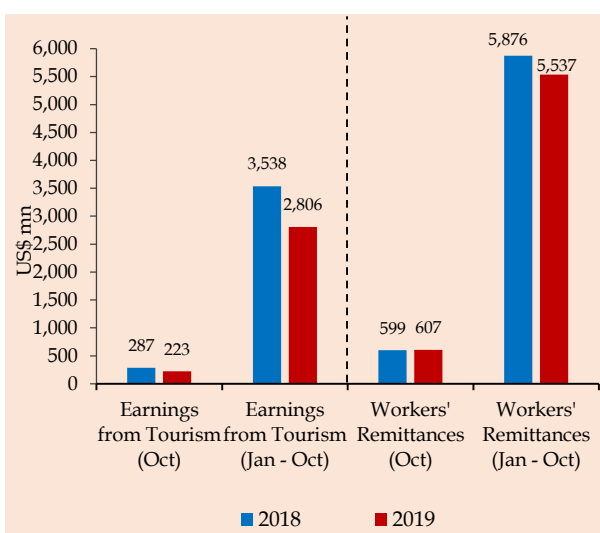
- A steady recovery in monthly tourist arrivals after the Easter Sunday attacks was observed in recent months. Tourist arrivals amounted to 118,743 in October 2019, with a decline of arrivals of 22.5 per cent in October 2019, compared to the drop of 27.2 per cent in September and 28.3 per cent in August 2019. The decline in the number of tourists from key destinations such as the United Kingdom and China mainly contributed to the drop in tourist arrivals, on a year-on-year basis.
- Earnings from tourism were estimated at US dollars 223 million in October 2019, in comparison to US dollars 287 million in October 2018. In cumulative terms, earnings from tourism were estimated at US dollars 2,806 million during the first ten months of 2019, compared to US dollars 3,538 million during the corresponding period of 2018.
- Meanwhile, workers' remittances grew by 1.3 per cent, year-on-year, to US dollars 607 million in October 2019. On a cumulative basis, workers' remittances declined by 5.8 per cent to US dollars 5,537 million during the first ten months of 2019 in comparison to the corresponding period of 2018.

Figure 8: Top Five Countries of Tourist Arrivals



Source: SLTDA

Figure 9: Tourism and Workers' Remittances



Sources: SLTDA, Licensed Banks, CBSL

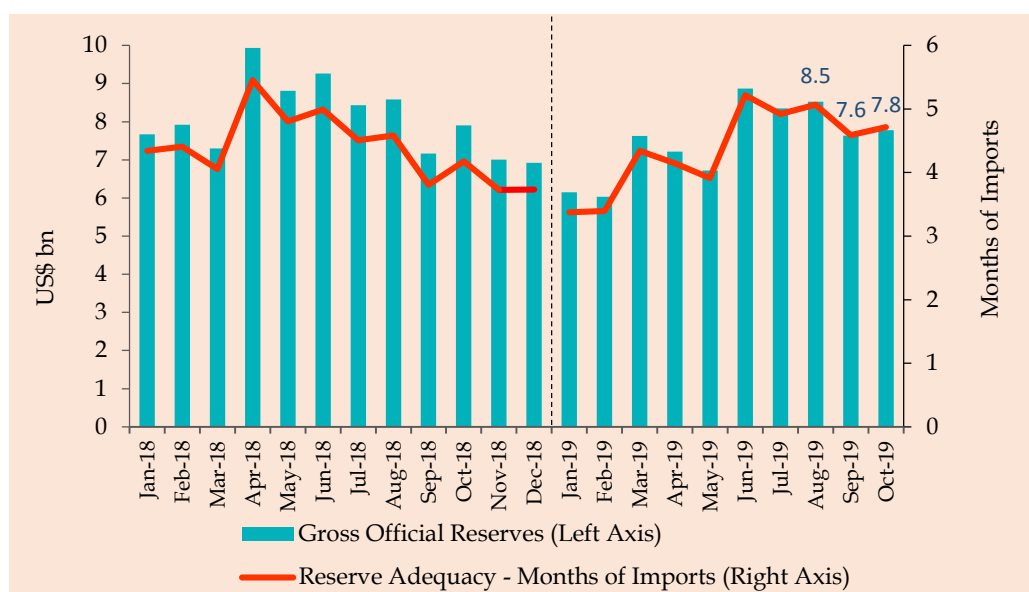
Financial Flows

- Foreign investment in rupee denominated government securities recorded a net inflow of US dollars 12 million in October 2019. On a cumulative basis, net outflows from the government securities market amounted to US dollars 280 million during the first ten months of the year.
- Foreign investment in the CSE, including primary and secondary market transactions, recorded a net outflow of US dollars 10 million during the month of October 2019. Nevertheless, financial flows to the CSE recorded a marginal net inflow of US dollars 5 million during the first ten months of 2019.
- Further, long term loans to the government recorded a net inflow of US dollars 102 million during October 2019.

International Reserves

- Gross official reserves stood at US dollars 7.8 billion at end October 2019, equivalent to 4.7 months of imports. Meanwhile, total foreign assets consisting of gross official reserves and foreign assets of the banking sector amounted to US dollars 10.4 billion at end October 2019, equivalent to 6.3 months of imports.

Figure 10: Gross Official Reserves and Reserve Adequacy

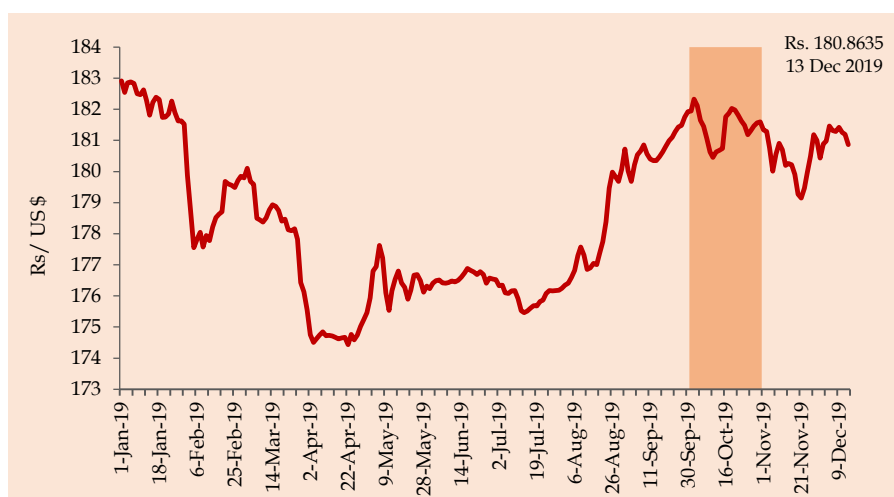


Source: CBSL

Exchange Rate Movements

- The Sri Lankan rupee remained appreciated during the year up to end October 2019, despite some depreciation pressure observed in October 2019. Further, the Sri Lankan rupee appreciated by 1.0 per cent against the US dollar during the year up to 13 December 2019. Reflecting cross-currency movements, the rupee appreciated against other major currencies except the Pound sterling and the Canadian dollar during this period.

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 Dec) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+1.0%
Euro	-12.7%	+3.4%
Pound sterling	-11.4%	-4.9%
Japanese yen	-18.1%	+0.2%
Canadian dollar	-9.3%	-2.4%
Australian dollar	-7.6%	+3.0%
Indian rupee	-8.7%	+2.0%

Source: CBSL