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Press Release

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External Sector Performance – December 2019

Highlights

Earnings from exports declined while expenditure on imports increased during December 2019, widening the trade deficit. During the year 2019, the trade deficit contracted significantly, driven by a sharp contraction in import expenditure. The speed of recovery in tourism industry accelerated in December 2019 although cumulative earnings from tourism declined during the year. Workers' remittances increased notably (year-on-year) in December 2019 helping to moderate the cumulative decline in 2019. Meanwhile, there was a notable outflow of foreign investment from the government securities market during December 2019 while marginal net outflows were also observed from the CSE. The Sri Lankan rupee appreciated against the US dollar during 2019 and remained stable thus far during 2020.

External Sector Performance – December 2019: Highlights

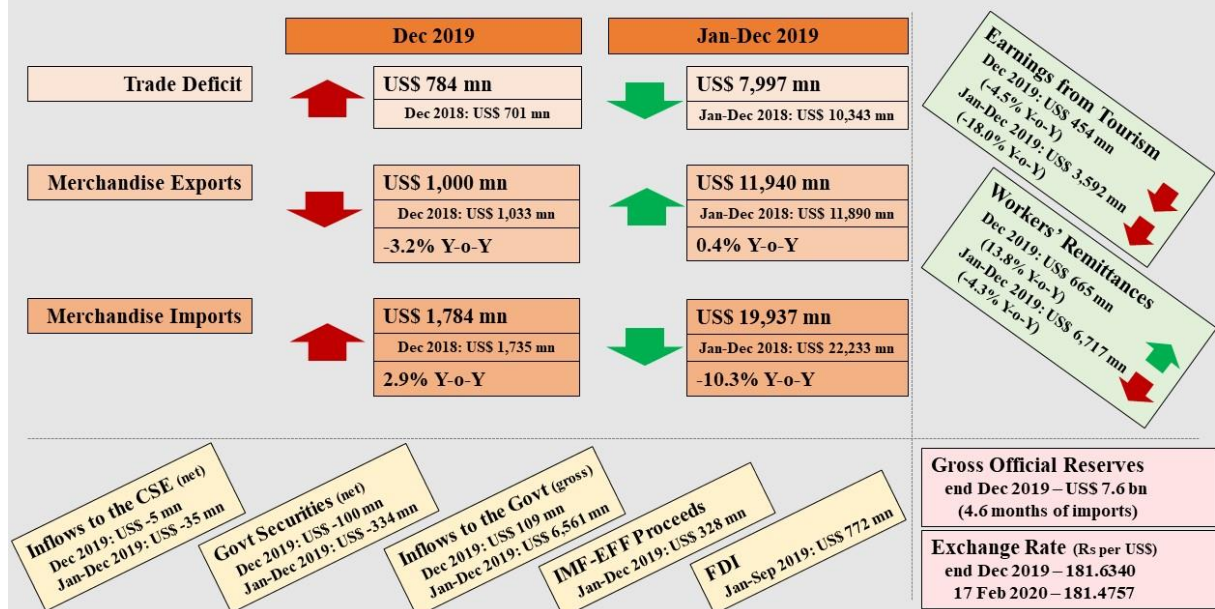


Table 1: Summary of External Sector Performance (a)

Category	December 2018 US\$ mn	December 2019 US\$ mn	Change (%)	Jan-Dec 2018 US\$ mn	Jan-Dec 2019 US\$ mn	Change (%)
Exports	1,033	1,000	-3.2	11,890	11,940	0.4
Imports	1,735	1,784	2.9	22,233	19,937	-10.3
Trade balance (net)	-701	-784		-10,343	-7,997	
Earnings from tourism	475 (b)	454 (c)	-4.5	4,381(b)	3,592 (c)	-18.0
Workers' remittances	584	665	13.8	7,015	6,717	-4.3
Inflows to the CSE (net) (d)	-26	-5		-55	-35	
Inflows to the Government (gross)	44	109		5,534	6,561	
Treasury bills and bonds	8	17		706	596	
Long term loans	36	92		2,328	1,565	
International Sovereign Bonds	-	-		2,500	4,400	
IMF-EFF receipts	-	-		252	328	
Foreign Direct Investment (e)				1,652	772	
Overall Balance				-1,103	377	

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

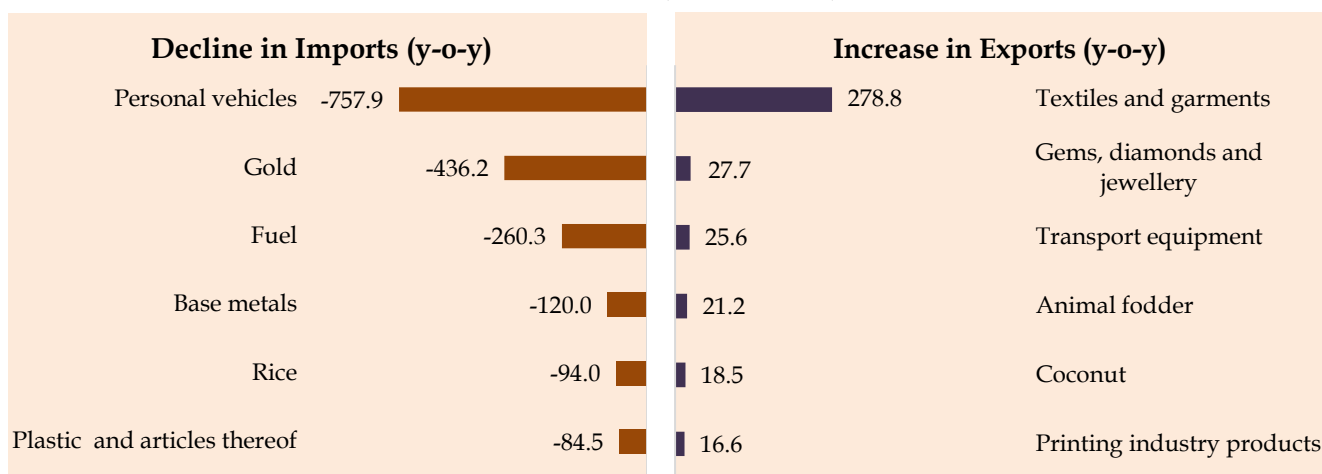
(d) Include secondary and primary market transactions

(e) Data available for the first 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

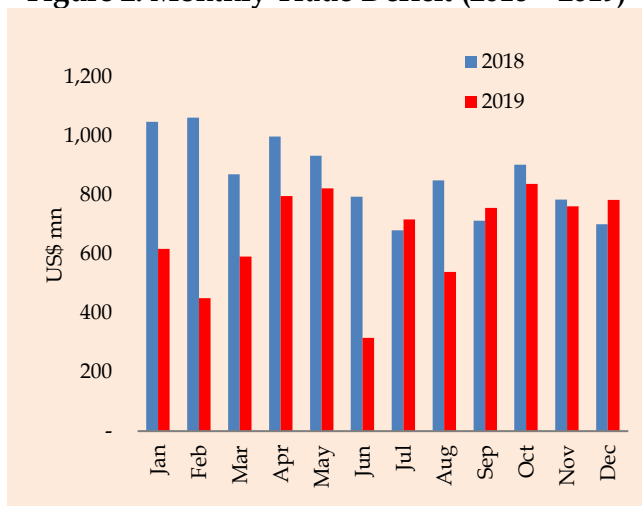
- The **deficit in the trade account** widened in December 2019 to US dollars 784 million, from US dollars 701 million in December 2018, led by a decline in exports and a growth in imports on a year-on-year basis. However, on a cumulative basis, the trade deficit contracted by US dollars 2,346 million to US dollars 7,997 million during 2019 from US dollars 10,343 million in 2018. The major contributory factors for this decline are depicted in Figure 1.
- Meanwhile, the **terms of trade**, i.e., the ratio of the price of exports to the price of imports, deteriorated by 2.9 per cent (year-on-year) in December 2019, as export prices declined at a faster pace than the decline in import prices. Cumulatively, the terms of trade deteriorated by 1.5 per cent during 2019 in comparison to 2018.

Figure 1: Major Contributory Factors for the Contraction in the Trade Deficit: Jan-Dec 2019 (US\$ million)



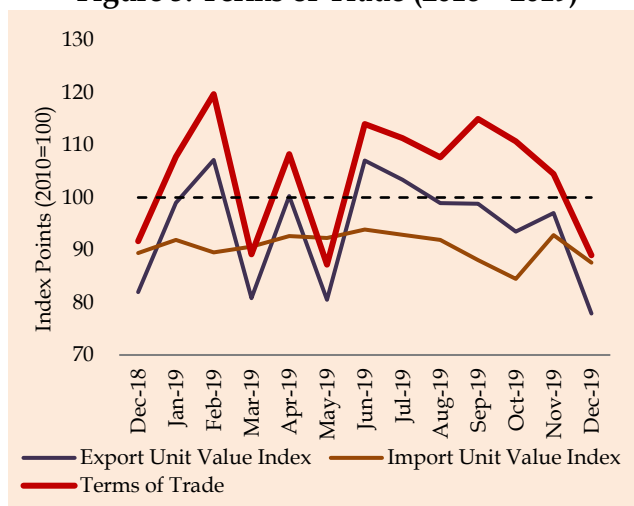
Sources: SLC, CBSL

Figure 2: Monthly Trade Deficit (2018 - 2019)



Sources: SLC, CBSL

Figure 3: Terms of Trade (2018 - 2019)



Source: CBSL

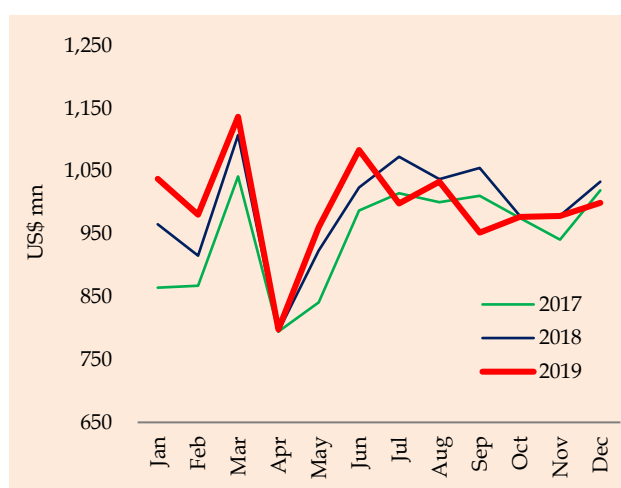
Performance of Merchandise Exports

- In comparison to December 2018, earnings from **merchandise exports** declined by 3.2 per cent to US dollars 1,000 million in December 2019, with the decline in agricultural exports as well as industrial exports.
- Earnings from **agricultural exports** declined in December 2019 due to lower exports of most subcategories. On a year-on-year basis, earnings from tea exports declined due to the combined effect of lower export volumes and average export prices. Earnings from spices declined due to lower export prices of all sub sectors while export volumes, except cloves, also declined. Earnings from seafood exports also declined with lower demand from the US market. In contrast, earnings from exports

of minor agricultural products, mainly arecanuts and fruits, increased during the month.

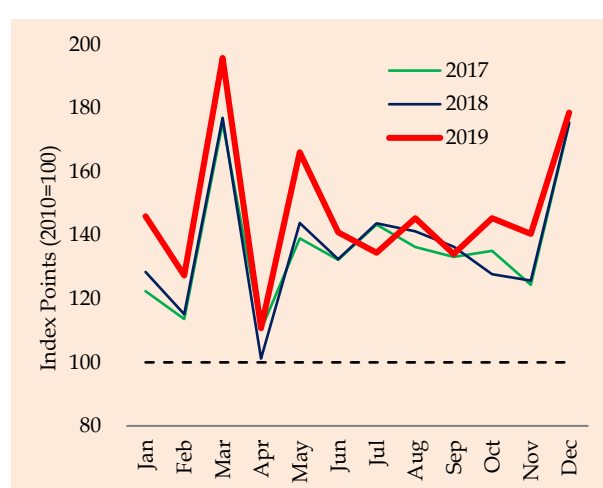
- Earnings from **industrial exports** declined in December 2019 in comparison to December 2018, mainly driven by lower textiles and garment exports due to dampened demand from the EU and the USA, despite an increase recorded in exports to non-traditional markets such as Canada, Australia and China. Earnings from machinery and mechanical appliances declined due to lower exports in most subcategories except insulated wires, cables and conductors. Earnings from rubber products also declined as a result of lower tyre exports, although export of surgical and other gloves increased. Conversely, export earnings from petroleum products increased mainly due to the increase in earnings from petroleum gases despite a decline in earnings from bunker fuel. In addition, earnings from gem, diamonds and jewellery exports increased.
- Earnings from **mineral exports** recorded a considerable growth in December 2019, year-on-year, led by ores, slag and ash exports.
- The export volume index in December 2019 improved by 1.8 per cent (year-on-year), while the export unit value index declined by 4.9 per cent, indicating that the decline in exports was driven entirely by lower prices when compared to December 2018.

Figure 4: Monthly Export Performance



Sources: SLC, CBSL

Figure 5: Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	December 2018 (US\$ mn)	December 2019 (US\$ mn)	Change (%)	Jan-Dec 2018 (US\$ mn)	Jan-Dec 2019 (US\$ mn)	Change (%)
1. Industrial exports	813.2	798.9	(1.8)	9,258.2	9,426.3	1.8
Food, beverages and tobacco	38.5	36.1	(6.2)	462.3	447.0	(3.3)
Animal fodder	8.2	11.6	41.9	107.8	129.0	19.7
Textiles and garments	493.4	483.2	(2.1)	5,317.7	5,596.5	5.2
o/w Garments	459.6	451.9	(1.7)	4,960.8	5,205.5	4.9
Textiles	24.2	22.8	(5.8)	260.1	284.3	9.3
Other made up textile articles	9.6	8.6	(11.1)	96.8	106.7	10.2
Rubber products	76.4	73.0	(4.4)	875.3	866.1	(1.1)
Gems, diamonds and jewellery	18.9	24.3	28.8	278.0	305.7	10.0
Machinery and mechanical appliances	33.1	29.7	(10.5)	434.8	400.0	(8.0)
Transport equipment	8.4	6.2	(26.5)	120.3	145.9	21.3
Petroleum products	52.9	55.3	4.5	622.1	521.1	(16.2)
Chemical products	13.2	12.8	(3.0)	166.8	176.3	5.7
Wood and paper products	11.7	9.3	(20.7)	140.5	129.4	(7.9)
Printing industry products	2.4	3.7	56.4	31.7	48.3	52.4
Leather, travel goods and footwear	8.7	7.5	(14.1)	147.7	102.9	(30.3)
Plastics and articles thereof	7.4	5.8	(21.9)	77.6	73.5	(5.4)
Base metals and articles	12.4	13.4	8.6	165.4	176.5	6.7
Ceramic products	2.0	2.3	19.4	31.3	30.1	(3.9)
Other	25.7	24.6	(4.0)	279.0	278.1	(0.3)
2. Agricultural exports	216.6	195.4	(9.8)	2,579.3	2,461.9	(4.6)
Tea	117.1	105.8	(9.6)	1,428.5	1,346.4	(5.7)
Rubber	1.9	1.8	(4.8)	31.6	24.2	(23.4)
Coconut	23.9	21.8	(8.5)	311.0	329.5	6.0
Spices	30.0	21.1	(29.6)	360.2	312.5	(13.2)
Vegetables	2.2	2.8	27.7	28.2	32.0	13.3
Unmanufactured tobacco	4.1	3.6	(10.6)	35.6	34.7	(2.4)
Minor agricultural products	8.3	14.6	75.5	118.4	120.0	1.4
Seafood	29.2	23.9	(18.3)	265.8	262.5	(1.3)
3. Mineral exports	2.0	3.3	67.7	34.4	33.9	(1.4)
4. Unclassified exports	1.6	2.4	45.5	17.8	17.9	0.6
Total exports	1,033.4	999.9	(3.2)	11,889.6	11,940.0	0.4

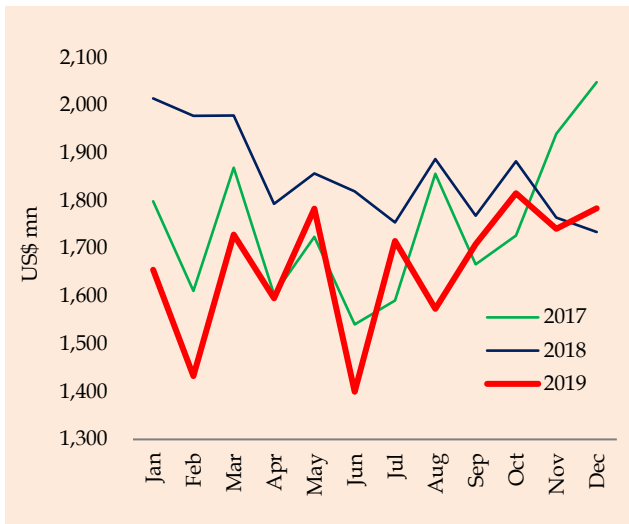
(a) Provisional

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

Performance of Merchandise Imports

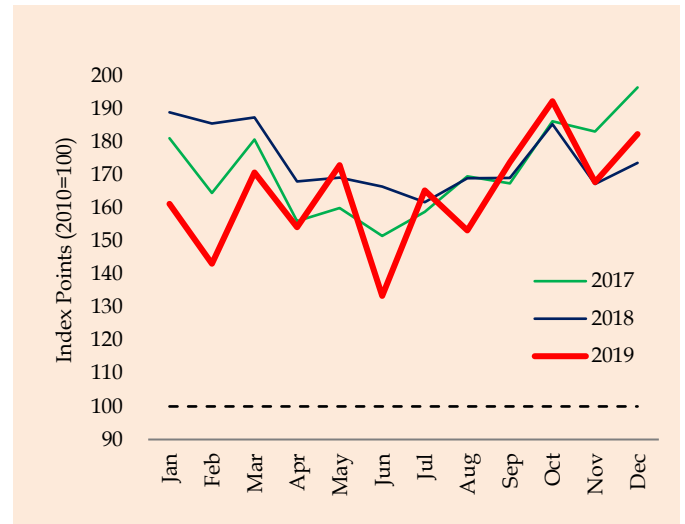
- In December 2019, **merchandise imports** increased for the first time since October 2018, by 2.9 per cent (year-on-year) to US dollars 1,784 million, driven by higher investment and consumer goods imports.
- Expenditure on **consumer goods** imports increased in December 2019 with increases in both food and beverages and non-food consumer goods imports. Accordingly, vegetables (mainly big onions), spices (mainly chillies) and beverages (mainly alcoholic beverages) imports, categorised under food and beverages, increased. Meanwhile, most categories in non-food consumer goods imports increased during the month. Expenditure on personal motor vehicle imports recorded a growth on a year-on-year basis for the first time since November 2018, mainly reflecting the impact of the resumption of personal motor vehicle imports under concessionary permits.
- Expenditure on **investment goods** imports increased in December 2019 due to higher imports of machinery and equipment and transport equipment. The increase in expenditure on machinery and equipment was driven by medical and laboratory equipment, while expenditure on transport equipment increased with higher expenditure incurred on railway equipment and commercial vehicles. However, expenditure on building material decreased due to low imports of most subcategories except articles of iron and steel, mineral products, and insulated wires and cables.
- Expenditure on imports of **intermediate goods** declined in December 2019, mainly as a result of lower expenditure on base metals such as iron and steel. Expenditure on fertiliser and wheat and maize also decreased owing to lower import volumes as well as prices. However, import expenditure on fuel increased during the month mainly due to higher expenditure on refined petroleum on account of higher average import price and volume imported despite lower import expenditure on crude oil and coal due to lower import volumes. Expenditure on textiles and textile articles also increased, led by higher fabric and fibre imports.
- The import volume index increased by 5.0 per cent while the unit value index narrowed by 2.1 per cent in December 2019, indicating that the decline in imports was driven entirely by lower prices when compared to December 2018.

Figure 6: Monthly Import Performance



Sources: SLC, CBSL

Figure 7: Import Volume Index



Source: CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	December 2018 (US\$ mn)	December 2019 (US\$ mn)	Change (%)	Jan-Dec 2018 (US\$ mn)	Jan-Dec 2019 (US\$ mn)	Change (%)
1. Consumer goods	357.0	390.9	9.5	4,979.7	3,956.5	(20.5)
Food and beverages	134.6	148.0	10.0	1,606.1	1,426.9	(11.2)
Cereals and milling industry products	4.9	4.0	(19.2)	126.2	36.1	(71.4)
o/w Rice	2.9	1.8	(36.3)	106.8	12.8	(88.0)
Dairy products	33.2	29.9	(10.1)	332.3	311.9	(6.1)
Vegetables	26.1	40.5	55.3	304.0	310.0	2.0
Seafood	14.8	15.3	3.3	197.2	214.6	8.8
Sugar and confectionery	26.3	21.3	(19.0)	249.7	201.2	(19.4)
Spices	9.8	13.3	34.8	114.0	115.4	1.3
Beverages	6.2	8.3	34.6	87.2	83.3	(4.5)
Other food and beverages	13.3	15.5	16.9	195.5	154.4	(21.0)
Non-food consumer goods	222.4	242.8	9.2	3,373.6	2,529.6	(25.0)
Personal vehicles	77.3	83.9	8.6	1,573.5	815.7	(48.2)
Medical and pharmaceuticals	43.4	54.7	26.0	532.0	552.6	3.9
Clothing and accessories	26.9	24.0	(10.7)	310.3	275.1	(11.3)
Home appliances	16.2	19.2	18.5	232.2	206.6	(11.0)
Telecommunication devices	21.5	21.6	0.5	272.4	247.2	(9.3)
Household and furniture items	13.0	16.7	28.3	169.4	171.9	1.5
Other non-food consumables	24.1	22.7	(5.8)	283.8	260.5	(8.2)
2. Intermediate goods	983.1	956.4	(2.7)	12,488.0	11,369.6	(9.0)
Fuel	317.3	333.2	5.0	4,151.9	3,891.6	(6.3)
o/w Crude oil	91.4	50.2	(45.0)	978.1	970.7	(0.8)
Refined petroleum	187.0	259.0	38.5	2,937.2	2,706.4	(7.9)
Coal	39.0	24.0	(38.4)	236.6	214.6	(9.3)
Diamonds, precious stones and metals	20.0	23.9	19.6	572.7	201.4	(64.8)
o/w Gold	...	0.1	4,217.7	438.7	2.6	(99.4)
Textiles and textile articles	241.5	248.3	2.8	2,858.5	2,909.4	1.8
Chemical products	69.9	67.1	(4.1)	904.2	831.5	(8.0)
Plastic and articles thereof	51.5	54.2	5.3	697.4	612.9	(12.1)
Paper and paperboard and articles thereof	42.7	37.6	(11.9)	529.4	457.3	(13.6)
Base metals	86.1	50.7	(41.1)	682.8	562.8	(17.6)
Fertiliser	26.0	17.4	(33.2)	261.6	221.4	(15.4)
Wheat and maize	24.9	20.1	(19.4)	373.5	346.4	(7.3)
Food preparations	21.7	16.8	(22.8)	296.8	227.7	(23.3)
Agricultural inputs	17.9	19.3	8.1	207.6	187.9	(9.5)
Mineral products	10.4	12.2	17.2	181.4	243.3	34.1
Other intermediate goods	53.3	55.7	4.6	770.1	676.1	(12.2)
3. Investment goods	394.0	435.5	10.5	4,690.4	4,602.6	(1.9)
Machinery and equipment	200.0	238.5	19.3	2,491.6	2,489.7	(0.1)
Building material	141.3	117.0	(17.2)	1,524.5	1,508.7	(1.0)
Transport equipment	52.2	78.2	49.8	668.1	596.6	(10.7)
Other investment goods	0.4	1.7	306.8	6.1	7.6	25.5
4. Unclassified imports	0.4	1.4	224.9	74.6	8.3	(88.9)
Total imports	1,734.6	1,784.2	2.9	22,232.7	19,937.1	(10.3)

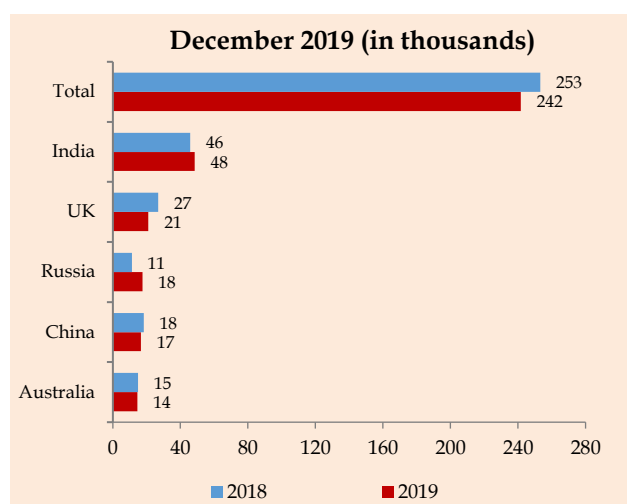
(a) Provisional

Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

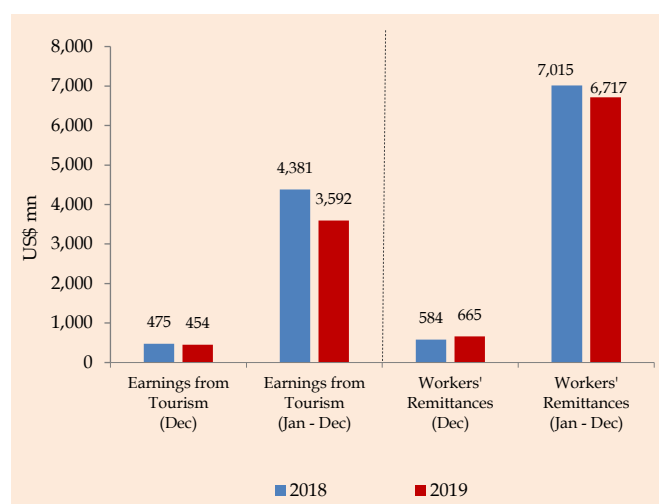
- Monthly **tourist arrivals** after the Easter Sunday attacks recovered notably and recorded only a modest decline on a year-on-year basis in December 2019. During the month, 241,663 tourists arrived in the country, recording a year-on-year decline of 4.5 per cent, compared to the drop of 9.5 per cent in November and 22.5 per cent in October 2019. Tourist arrivals from Russia, Canada and the United States improved in December 2019 (year-on-year), while arrivals from key destinations, such as France, Germany, Maldives and the United Kingdom, declined. Tourist arrivals were recorded at 1.9 million in 2019, a decline of 18.0 per cent compared to 2.3 million arrivals in 2018. The tourism sector could suffer a further setback in the period ahead, following the outbreak of the new coronavirus that originated in China and spread to several other countries.
- Earnings from tourism** were provisionally estimated at US dollars 454 million in December 2019, in comparison to US dollars 475 million in December 2018. Earnings from tourism during 2019 were provisionally estimated at US dollars 3,592 million, compared to US dollars 4,381 million during the previous year.
- Meanwhile, **workers' remittances** recorded a growth of 13.8 per cent in December 2019, year-on-year, amounting to US dollars 665 million. On a cumulative basis, workers' remittances recorded a decline of 4.3 per cent, amounting to US dollars 6,717 million in 2019 compared to US dollars 7,015 million in 2018.

Figure 8: Top Five Countries of Tourist Arrivals



Source: SLTDA

Figure 9: Tourism and Workers' Remittances



Sources: SLTDA, Licensed Banks, CBSL

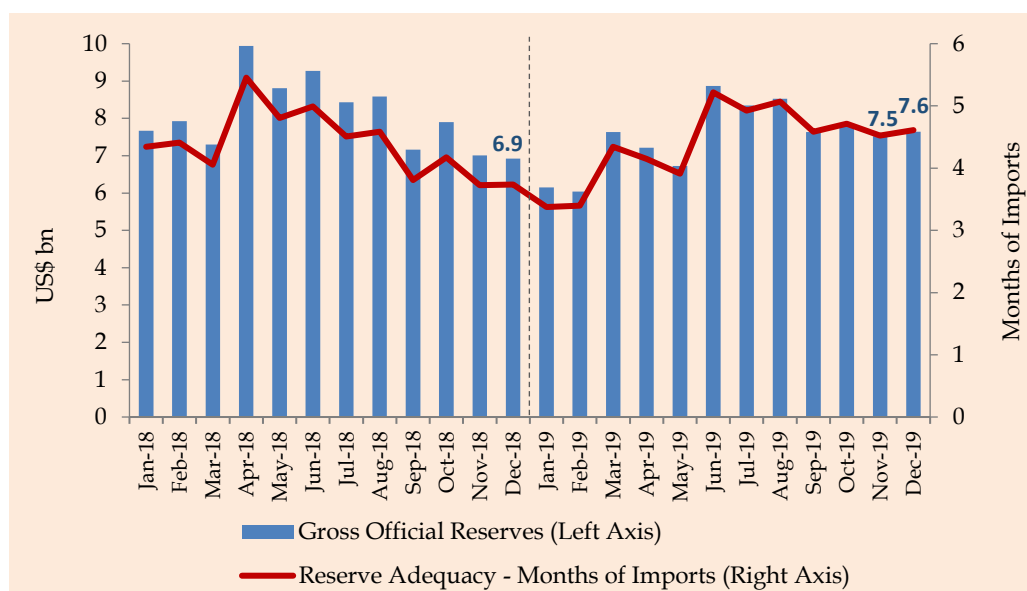
Financial Flows

- A net outflow of foreign investment amounting to US dollars 100 million was recorded in the rupee denominated government securities market in December 2019, resulting in a cumulative net outflow of US dollars 334 million in 2019.
- During the month of December 2019, there was a net foreign outflow of US dollars 5 million from the CSE, including primary and secondary market transactions. On a cumulative basis, the CSE recorded a net outflow of US dollars 35 million in 2019.
- Further, net inflows on account of long term loans to the government amounted to US dollars 8 million during December 2019.

International Reserves

- Gross official reserves stood at US dollars 7.6 billion at end December 2019, equivalent to 4.6 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 December 2019, equivalent to 6.3 months of imports.

Figure 10: Gross Official Reserves and Reserve Adequacy

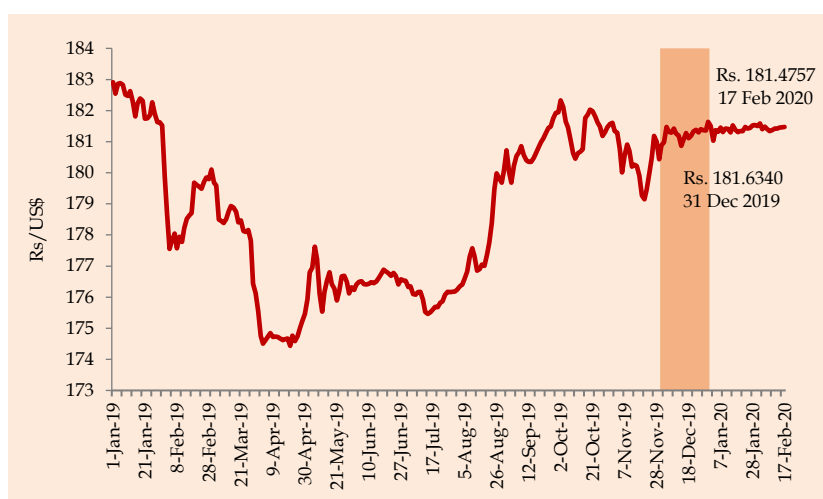


Source: CBSL

Exchange Rate Movements

- The Sri Lankan rupee remained stable in December 2019 and appreciated by 0.6 per cent against the US dollar during the year 2019. The currency appreciated by a further 0.1 per cent against the US dollar during the year up to 17 February 2020. Reflecting cross-currency movements, the rupee appreciated against other major currencies during the year up to 17 February 2020.

Figure 11: Movement of the Sri Lankan rupee against the US dollar



Source: CBSL

Table 4: Movement of the Sri Lankan rupee against Selected Currencies

Currency	2018	2019	2020 (up to 17 Feb) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+0.6%	+0.1%
Euro	-12.7%	+2.6%	+3.5%
Pound sterling	-11.4%	-2.8%	+0.7%
Japanese yen	-18.1%	-1.0%	+1.2%
Canadian dollar	-9.3%	-3.7%	+1.6%
Australian dollar	-7.6%	+1.3%	+4.3%
Indian rupee	-8.7%	+2.6%	+0.4%

Source: CBSL