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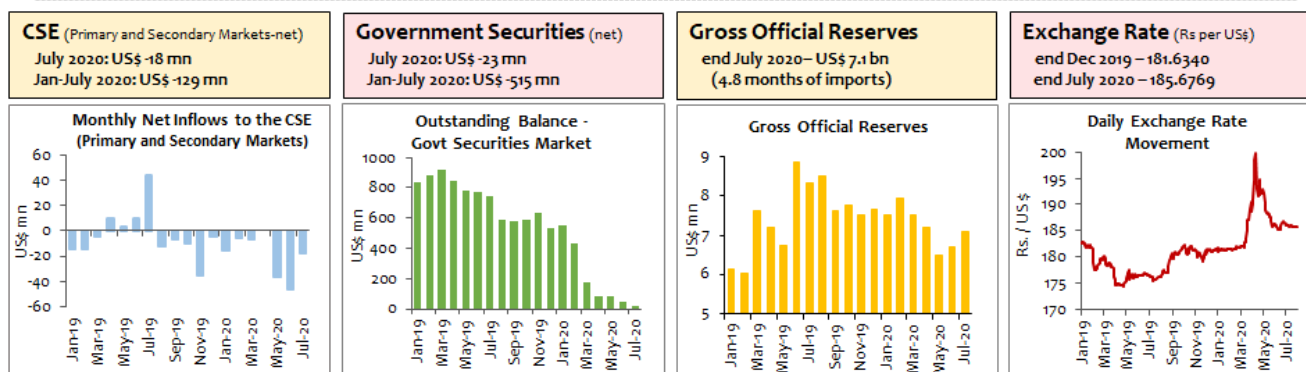
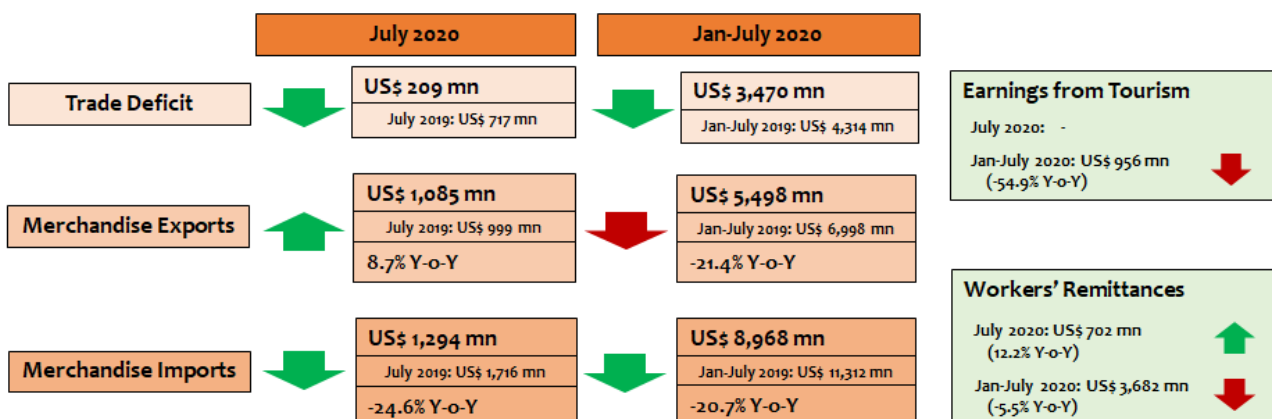
Press Release

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External Sector Performance – July 2020

Highlights



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>

Overview

Sri Lanka's external sector recovered further in July 2020 supported by an increase in merchandise exports and increased workers' remittances amidst reduced merchandise imports. Several notable achievements were observed in spite of the COVID-19 pandemic. Earnings from merchandise exports surpassed US dollars 1 billion in July for the first time since January 2020 and recorded a positive year-on-year growth for the first time since February 2020. As expected, merchandise imports remained subdued with the continuation of restrictions imposed on the importation of non essential goods. A substantial increase was observed in workers' remittances in July 2020, recording the highest amount of monthly remittances since January 2018. Meanwhile, the level of gross official reserves of the country increased to US dollars 7.1 billion by end July 2020 with the receipt of the SAARCFINANCE swap facility from the Reserve Bank of India. Net inflows to the domestic foreign exchange market eased the pressure on the exchange rate and enabled the Central Bank to absorb foreign exchange on a net basis to build up gross official reserves. Foreign outflows from the government securities market and the Colombo Stock Exchange (CSE) continued during the month, though at relatively low levels. The Sri Lankan rupee recorded a marginal appreciation during the month of July 2020.

Table 1: Summary of External Sector Performance (a)

Category	July 2019 US\$ mn	July 2020 US\$ mn	Change (%)	Jan-July 2019 US\$ mn	Jan-July 2020 US\$ mn	Change (%)
Merchandise Exports	999	1,085	8.7	6,998	5,498	-21.4
Merchandise Imports	1,716	1,294	-24.6	11,312	8,968	-20.7
Trade balance	- 717	-209		- 4,314	-3,470	
Earnings from tourism	218 (b)	-	-	2,119 (b)	956 (c)	-54.9
Workers' remittances	626	702	12.2	3,895	3,682	-5.5
Inflows to the CSE (net) (d)	44	-18		34	-129	
Inflows to the Government (gross)	110	91		5,665	1,297	
Treasury bills and bonds	40	1		417	91	
Long term loans	70	90		849	1,206	
International Sovereign Bonds	-	-		4,400	-	
Foreign Direct Investment (e)				255	192	
Overall Balance				1,490	-939	

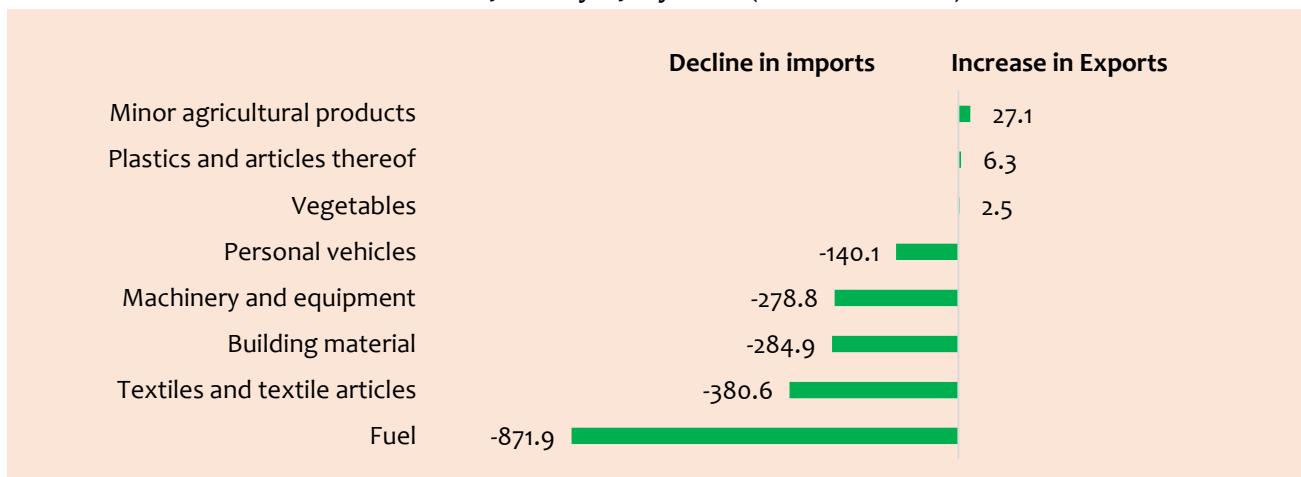
Sources: Sri Lanka Customs (SLC), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI), Central Bank of Sri Lanka (CBSL)

- (a) Provisional
- (b) Revised, based on survey results of SLTDA on average stay period and average spending per day estimates for 2019
- (c) This provisional estimate may be revised once SLTDA releases its survey results for 2020
- (d) Include primary and secondary 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 investment to the CSE

Trade Balance and Terms of Trade

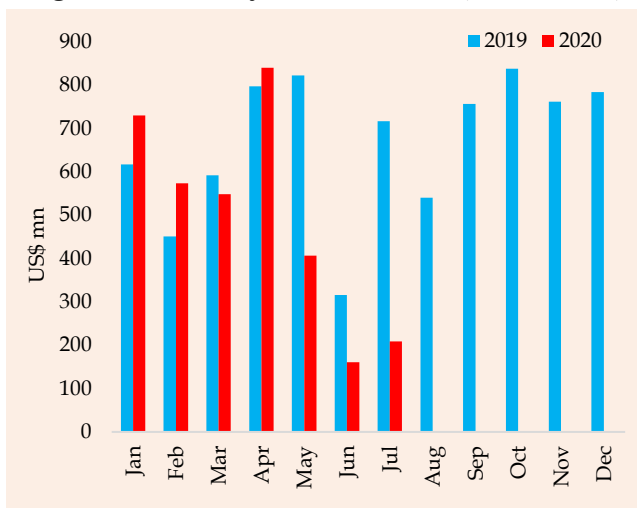
- The **deficit in the trade account** narrowed by US dollars 509 million in July 2020 to US dollars 209 million, from US dollars 717 million in July 2019, as exports increased while imports recorded a decline. Also, on a cumulative basis, the trade deficit narrowed by US dollars 844 million to US dollars 3,470 million during the period January-July 2020 from US dollars 4,314 million in the corresponding period of 2019. Major contributory factors for the decline in the trade deficit during this period are depicted in Figure 1.
- Meanwhile, **terms of trade**, i.e., the ratio of the price of exports to the price of imports, declined by 4.1 per cent (year on year) in July 2020 as export prices declined at a faster pace than the decline in import prices.

Figure 1: Major Contributory Factors for the decline in the Trade Deficit in January - July 2020 (in US\$ million)



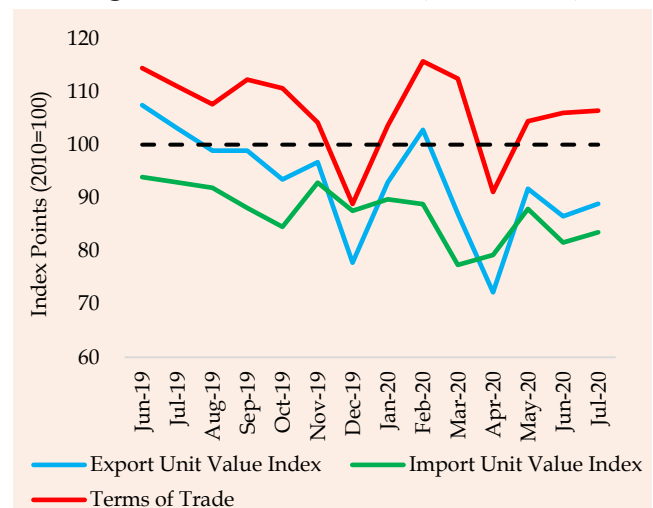
Sources: SLC, CBSL

Figure 2: Monthly Trade Deficit (2019 - 2020)



Sources: SLC, CBSL

Figure 3: Terms of Trade (2019 - 2020)



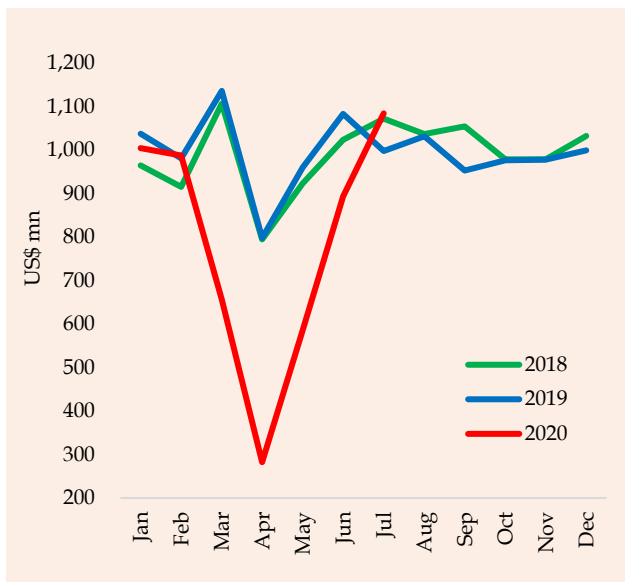
Source: CBSL

Performance of Merchandise Exports

- Earnings from **merchandise exports** continued to increase to US dollars 1,085 million in July 2020 from US dollars 894 million that was recorded in June 2020, with the gradual recovery of both domestic and global supply and demand chains and efforts by the government to support the export industries. On a year-on-year basis, earnings from merchandise exports recorded a growth of 8.7 per cent in July 2020. This positive growth observed for the first time since February 2020 emanated from increased earnings from all three major categories of exports, namely, agricultural, industrial, and mineral exports.
- Earnings from agricultural exports increased significantly in July 2020 on a year-on-year basis. Except unmanufactured tobacco and seafood, all subcategories of agricultural exports recorded increases. Earnings from tea recorded a growth for the second consecutive month in July 2020, with higher average export prices and volumes, compared to July 2019. Earnings from spices increased with the higher export volumes of all sub categories of spices, while earnings from coconut products increased with higher average export prices of kernel products and higher export volumes of non kernel products. Meanwhile, earnings from minor agricultural products increased, led by higher exports of arecanuts. In contrast, earnings from seafood exports declined resulting from reduced demand for seafood from major export destinations including the USA.
- Industrial exports recorded a growth in July 2020, year-on-year, for the first time since February 2020. This increase was due to increased earnings from exports related to food, beverages and tobacco, plastics and articles thereof, animal fodder, rubber products and printing industry products. With the considerable increase in earnings from personal protective equipment (PPE) such as face masks and protective suits, which are categorised under other made up articles, earnings from textiles and garments declined only marginally by 1.4 per cent in July 2020, led by lower garments exports to the USA and the EU. Meanwhile, despite a marginal decline in tyre exports, earnings from rubber products increased, led by exports of surgical and other gloves. Earnings from other subcategories of industrial exports including petroleum products, gems, diamonds and jewellery, base metals and articles and machinery and mechanical appliances declined during the month of July 2020.

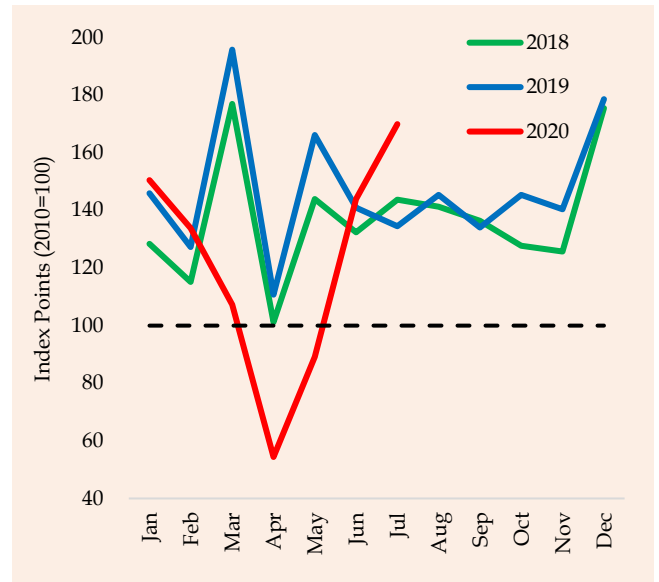
- Earnings from mineral exports increased in July 2020, year-on-year, led by higher earnings from ores, slag and ash exports along with earths and stone exports.
- The export volume index improved by 26.1 per cent while the unit value index deteriorated by 13.8 per cent, in July 2020, indicating that the increase in exports was driven entirely by higher export volumes, compared to July 2019.

Figure 4: Monthly Export Performance



Sources: SLC, CBSL

Figure 5: Monthly Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	July 2019 (US\$ mn)	July 2020 (US\$ mn)	Change (%)	Jan-Jul 2019 (US\$ mn)	Jan-Jul 2020 (US\$ mn)	Change (%)
1. Industrial exports	789.5	819.4	3.8	5,518.1	4,176.5	-24.3
Food, beverages and tobacco	36.7	64.3	75.4	270.0	262.2	-2.9
Animal fodder	10.0	18.7	87.2	80.7	67.9	-15.9
Textiles and garments	475.6	469.2	-1.4	3,237.0	2,413.0	-25.5
o/w Garments	443.4	404.3	-8.8	3,014.2	2,138.5	-29.1
Textiles	23.1	26.5	14.9	161.0	132.4	-17.8
Other made up textile articles	9.1	38.3	319.2	61.8	142.1	130.1
Rubber products	76.3	82.2	7.8	518.4	417.9	-19.4
Gems, diamonds and jewellery	24.7	17.7	-28.3	175.6	90.5	-48.5
Machinery and mechanical appliances	36.0	32.0	-11.2	242.5	178.4	-26.4
Transport equipment	7.2	8.2	13.6	114.5	39.1	-65.9
Petroleum products	43.0	26.7	-38.0	285.0	246.2	-13.6
Chemical products	15.5	16.6	7.3	103.4	91.9	-11.1
Wood and paper products	10.2	10.9	7.4	80.9	55.4	-31.6
Printing industry products	0.7	6.3	831.7	24.0	21.4	-11.0
Leather, travel goods and footwear	6.3	6.4	1.5	64.4	32.5	-49.5
Plastics and articles thereof	6.2	22.2	255.0	42.6	48.9	14.8
Base metals and articles	16.4	10.1	-38.5	107.1	65.5	-38.8
Ceramic products	2.7	2.4	-9.4	16.8	11.5	-31.5
Other industrial exports	22.1	25.5	15.6	155.2	134.3	-13.5
2. Agricultural exports	205.1	261.2	27.3	1,450.2	1,300.1	-10.3
Tea	111.3	130.9	17.6	796.3	702.6	-11.8
Rubber	1.9	2.9	49.7	16.9	16.4	-3.3
Coconut	30.9	40.8	32.2	204.1	187.6	-8.1
Spices	26.5	40.9	54.6	170.1	154.8	-9.0
Vegetables	2.5	7.1	187.8	18.5	21.0	13.7
Unmanufactured tobacco	2.8	2.5	-11.0	19.4	12.0	-38.0
Minor agricultural products	8.8	17.5	98.4	61.1	88.2	44.4
Seafood	20.4	18.5	-9.4	164.0	117.6	-28.3
3. Mineral exports	2.7	2.9	7.4	19.4	12.6	-35.0
4. Unclassified exports	1.3	1.6	24.7	10.1	8.6	-14.9
Total exports	998.5	1,085.0	8.7	6,997.7	5,497.8	-21.4

(a) Provisional

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

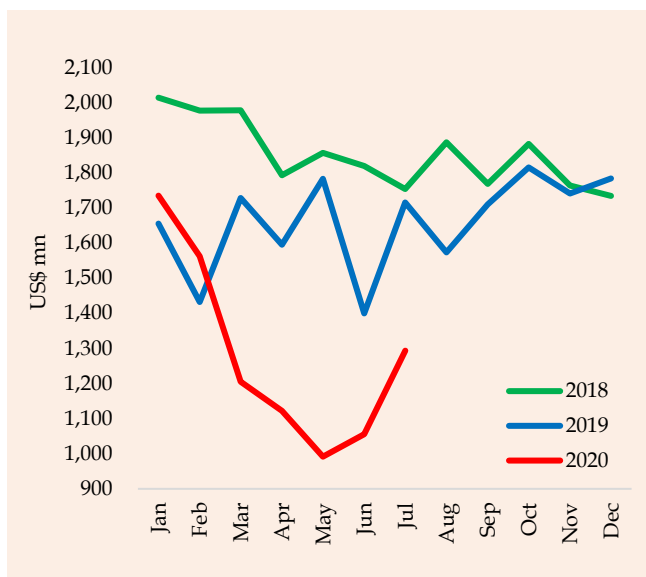
Performance of Merchandise Imports

- The year-on-year declining trend observed in expenditure on **merchandise imports** since March 2020 continued in July 2020 as well, recording a decline of 24.6 per cent, to US dollars 1,294 million. Expenditure on all major import sectors declined in July 2020. This reduction is partly attributed to the measures taken by the government to restrict the importation of selected non-essential goods.
- The expenditure on intermediate goods imports declined in July 2020, year-on-year, led by fuel imports (-36.3 per cent) and the importation of textiles and textile articles (-20.7 per cent). The reduction in expenditure in fuel imports was due to the refined and crude oil imports with lower petroleum prices in the international market. The average import price of crude oil declined to US dollars 46.23 per barrel in July 2020, compared to US dollars 68.73 a year ago. Import volumes of refined petroleum also declined, while higher volumes were recorded in crude oil and coal imports in July 2020 compared to July 2019. Meanwhile, the reduction in import expenditure of textiles and textile articles was led by lower imports of fabrics and yarn. Further, expenditure on all other sub categories under intermediate goods also declined in July 2020 compared to July 2019.
- The expenditure on investment goods declined notably, with decline in all sub categories in July 2020, on a year-on-year basis, resulting from the restrictions imposed by the government to curtail import expenditure. Accordingly, expenditure on machinery and equipment (mainly engineering equipment, electronic equipment, telecommunications devices and machinery and equipment parts), building material (mainly iron and steel and articles thereof, plastic, rubber and glassware, ceramic products and cement) and transport equipment (mainly commercial vehicles such as tankers and bowsers and auto-trishaws) declined in July 2020 when compared with July 2019.
- The expenditure on consumer goods declined led by non-food consumer goods imports, although the expenditure on food and beverages increased. As a result of import restrictions, the non-food consumer goods imports declined with lower expenditure on all sub categories except telecommunication devices (mainly mobile phones) and medical and pharmaceuticals. Expenditure on personal vehicle imports declined considerably by 93.6 per cent in July 2020, the lowest monthly outlay since

December 2009. Meanwhile, import expenditure on food and beverages increased in July 2020, led by import of sugar, fats and oils (mainly coconut oil) and vegetables (mainly lentils).

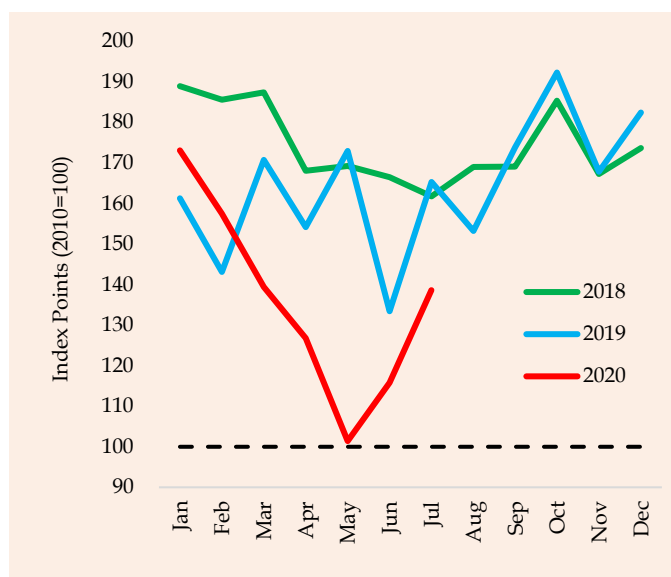
- Both the import volume index and the unit value index declined by 16.1 per cent and 10.1 per cent, respectively, in July 2020, indicating that the decrease in import expenditure was driven both by lower volumes and lower prices when compared to July 2019.

Figure 6: Monthly Import Performance



Sources: SLC, CBSL

Figure 7: Monthly Import Volume Index



Source: CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	July 2019 (US\$ mn)	July 2020 (US\$ mn)	Change (%)	Jan-Jul 2019 (US\$ mn)	Jan-Jul 2020 (US\$ mn)	Change (%)
1. Consumer goods	356.0	289.6	-18.7	2,167.1	2,071.7	-4.4
Food and beverages	109.3	130.2	19.1	799.2	917.5	14.8
Cereals and milling industry products	3.0	1.3	-57.2	19.3	18.0	-6.7
Dairy products	26.5	24.8	-6.2	178.1	205.9	15.6
Vegetables	23.8	25.6	7.8	165.1	228.0	38.1
Seafood	20.5	19.3	-5.6	127.7	126.8	-0.7
Sugar and confectionery	9.0	27.7	206.4	113.4	144.1	27.1
Spices	11.3	8.5	-25.1	61.4	76.2	24.1
Other food and beverages	15.2	23.0	50.7	134.2	118.5	-11.7
Non-food consumer goods	246.8	159.4	-35.4	1,367.9	1,154.2	-15.6
Personal vehicles	95.4	6.1	-93.6	419.6	279.5	-33.4
Medical and pharmaceuticals	50.4	63.0	24.9	299.6	337.7	12.7
Home appliances	16.1	8.8	-45.4	113.7	91.8	-19.3
Clothing and accessories	21.9	13.4	-38.7	156.0	124.4	-20.3
Telecommunication devices	26.0	45.6	75.1	141.2	146.9	4.1
Household and furniture items	15.4	10.6	-30.7	90.7	81.1	-10.5
Other non-food consumables	21.5	11.8	-45.1	147.1	92.8	-37.0
2. Intermediate goods	969.6	734.3	-24.3	6,516.0	4,901.1	-24.8
Fuel	314.7	200.3	-36.3	2,315.6	1,443.7	-37.7
o/w Crude oil	94.1	67.0	-28.9	585.4	318.3	-45.6
Refined petroleum	220.5	130.6	-40.8	1,604.9	996.2	-37.9
Coal	0.1	2.8	4,140.3	125.3	129.2	3.1
Diamonds, precious stones and metals	21.4	10.3	-51.9	109.5	49.5	-54.8
Textiles and textile articles	248.6	197.1	-20.7	1,643.4	1,262.8	-23.2
Paper and paperboard and articles thereof	42.3	33.8	-20.1	253.5	208.9	-17.6
Agricultural inputs	19.4	16.1	-16.8	113.8	117.9	3.6
Wheat and maize	35.1	26.8	-23.7	178.5	183.3	2.7
Base metals	47.1	36.4	-22.8	324.6	207.6	-36.0
Plastic and articles thereof	55.0	46.6	-15.2	344.9	275.0	-20.3
Chemical products	75.2	74.1	-1.5	486.7	453.0	-6.9
Fertiliser	12.0	9.1	-24.3	105.3	116.1	10.2
Rubber and articles thereof	21.2	18.6	-12.2	130.0	128.8	-0.9
Mineral products	17.3	14.8	-14.4	125.7	93.3	-25.8
Other intermediate goods	60.4	50.3	-16.8	384.3	361.2	-6.0
3. Investment goods	389.9	269.1	-31.0	2,625.5	1,984.3	-24.4
Machinery and equipment	193.5	157.0	-18.8	1,425.8	1,147.0	-19.6
Building material	148.8	94.2	-36.7	874.2	589.3	-32.6
Transport equipment	46.8	17.7	-62.2	321.3	246.2	-23.4
Other investment goods	0.9	0.3	-71.3	4.1	1.7	-57.6
4. Unclassified imports	0.4	0.7	77.6	3.4	11.2	231.9
Total imports	1,715.9	1,293.7	-24.6	11,311.9	8,968.3	-20.7
Non-fuel imports	1,401.3	1,093.4	-22.0	8,996.3	7,524.6	-16.4

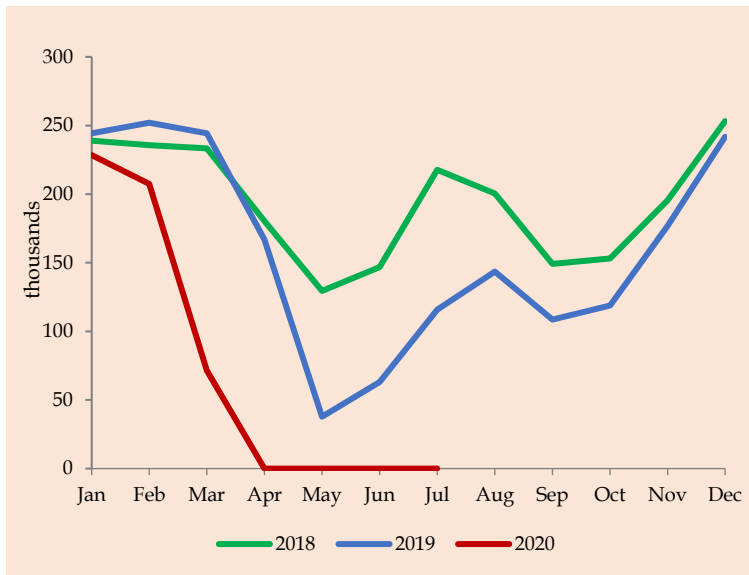
(a) Provisional

Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

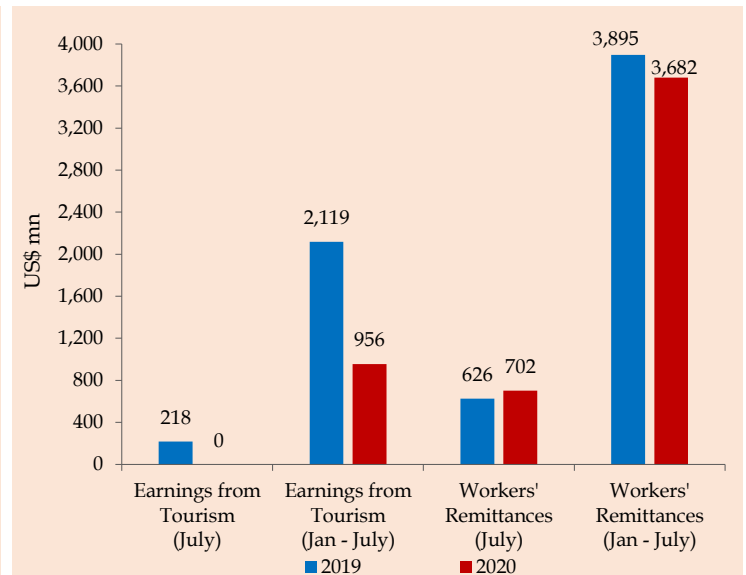
- No **tourist arrivals** were recorded for the fourth consecutive month in July 2020 due to the airports and sea ports remaining shut for tourist arrivals in view of the COVID-19 pandemic. Hence, cumulative tourist arrivals remained at 507,311 during the first seven months of 2020, compared to 1,124,150 arrivals recorded during the corresponding period in 2019.
- Accordingly, cumulative **earnings from tourism**, which are estimated based on tourist arrivals, remained at US dollars 956 million during the first seven months of 2020, recording a drop of 54.9 per cent from the corresponding period of 2019.
- Meanwhile, **workers' remittances** continued to increase, recording a growth of 12.2 per cent in July 2020, year-on-year, to US dollars 702 million. However, on a cumulative basis, workers' remittances declined by 5.5 per cent to US dollars 3,682 million during the period January - July 2020, in comparison to the corresponding period of 2019.

Figure 8: Monthly Tourist Arrivals



Source: SLTDA

Figure 9: Tourism and Workers' Remittances



Sources: SLTDA, Licensed Banks, CBSL

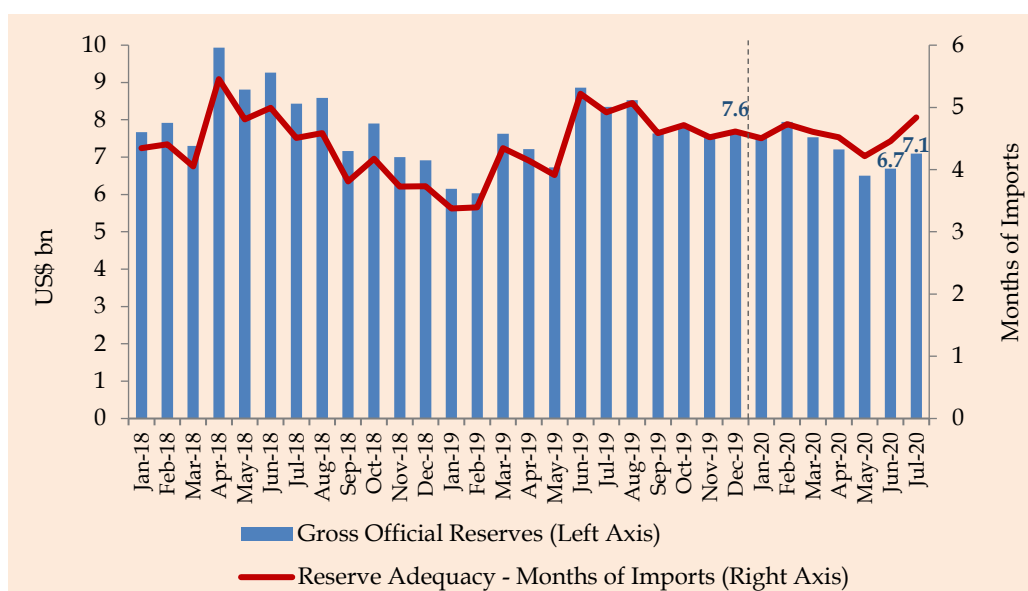
Financial Flows

- A net outflow of foreign investment amounting to US dollars 23 million was recorded from the rupee denominated **government securities** market in July 2020, resulting in a cumulative net outflow of US dollars 515 million during January-July 2020. The total outstanding exposure of foreign investment in the rupee denominated government securities market remained low at US dollars 69 million by end July 2020.
- There were net outflows of US dollars 18 million from the secondary market of the CSE in July 2020. No primary market inflow was recorded in July 2020. On a cumulative basis, the CSE recorded a net outflow of US dollars 129 million (both primary and secondary markets) during the first seven months of 2020.
- Meanwhile, **long term loans** to the government also recorded a net outflow in July 2020, amounting to US dollars 101 million.

International Reserves

- With the receipt of the SAARCFINANCE swap facility of US dollars 400 million from the Reserve Bank of India, the level of **gross official reserves** increased to US dollars 7.1 billion as at end July 2020, which was sufficient to cover 4.8 months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 10.0 billion at end July 2020, providing an import cover of 6.8 months.

Figure 10: Gross Official Reserves and Reserve Adequacy

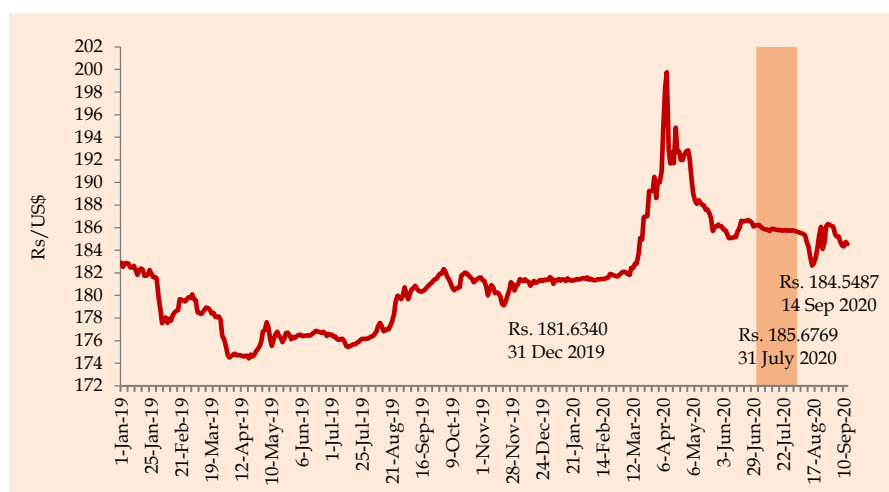


Source: CBSL

Exchange Rate Movements

- The Sri Lankan rupee, which continued to appreciate since mid-April 2020, maintained the momentum during July 2020 as well and recorded a marginal appreciation of 0.3 per cent during the month. The sharp appreciation of the rupee against the US dollar since mid-April led to limit the overall depreciation of the rupee thus far during the year up to 14 September 2020 to 1.6 per cent. The Central Bank continued to intervene in the domestic foreign exchange market with a view to building up the level of gross official reserves. During the year up to end August 2020, the Central Bank absorbed US dollars 200.4 million, on a net basis. Meanwhile, reflecting cross-currency movements, the rupee depreciated against the euro, the Japanese yen and the Australian dollar, while appreciating against the pound sterling and the Indian rupee during the year up to 14 September 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 14 Sep) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+0.6%	-1.6%
Euro	-12.7%	+2.6%	-6.9%
Pound sterling	-11.4%	-2.8%	+0.8%
Japanese yen	-18.1%	-1.0%	-3.9%
Australian dollar	-7.6%	+1.3%	-5.3%
Indian rupee	-8.7%	+2.6%	+1.4%

Source: CBSL