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Press Release

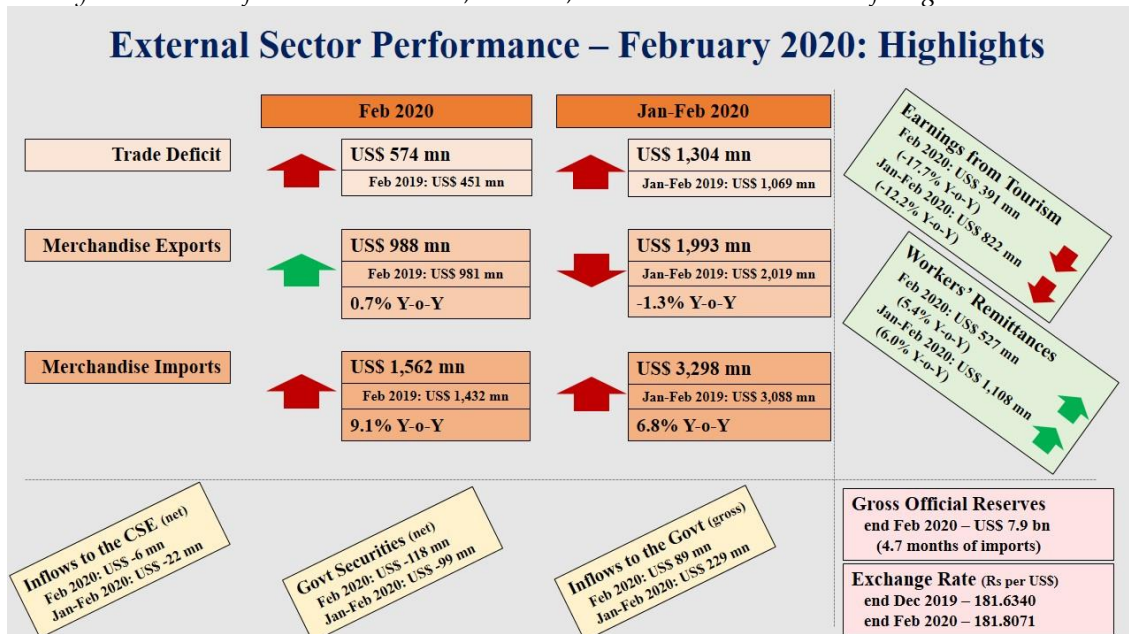
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External Sector Performance – February 2020

Highlights

The trade deficit widened in February 2020 compared to February 2019, as expenditure on imports increased at a faster pace than the increase in earnings from exports. The tourism industry, which recovered faster than expected in the aftermath of the Easter Sunday attacks, was affected again with the outbreak of COVID-19 evolving as a pandemic from late February 2020. Workers' remittances recorded a year on year growth, while foreign investment in the government securities market and the Colombo Stock Exchange (CSE) recorded net outflows in February 2020. The Sri Lankan rupee, which remained relatively stable up to the second week of March 2020, depreciated significantly in the latter part of March up to mid-April 2020, but started to stabilise thereafter, and recorded a significant appreciation in the first week of May 2020. Significant implications on the external sector performance are expected from the COVID-19 pandemic from March 2020 onwards, particularly in the areas of merchandise trade, tourism, workers' remittances and foreign investment.



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>

Table 1: Summary of External Sector Performance (a)

Category	February 2019 US\$ mn	February 2020 US\$ mn	Change (%)	Jan-Feb 2019 US\$ mn	Jan-Feb 2020 US\$ mn	Change (%)
Exports	981	988	0.7	2,019	1,993	-1.3
Imports	1,432	1,562	9.1	3,088	3,298	6.8
Trade balance (net)	-451	-574		-1,069	-1,304	
Earnings from tourism	475 (b)	391 (c)	-17.7	935 (b)	822 (c)	-12.2
Workers' remittances	500	527	5.4	1,046	1,108	6.0
Inflows to the CSE (net) (d)	-15	-6		-29	-22	
Inflows to the Government (gross)	235	89		521	229	
Treasury bills and bonds	95	20		167	79	
Long term loans	141	69		354	150	
Overall Balance				-858	310	

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 2019

(c) This provisional estimate may be revised once the SLTDA releases its survey results for 2020

(d) Include secondary and primary market transactions

Trade Balance and Terms of Trade

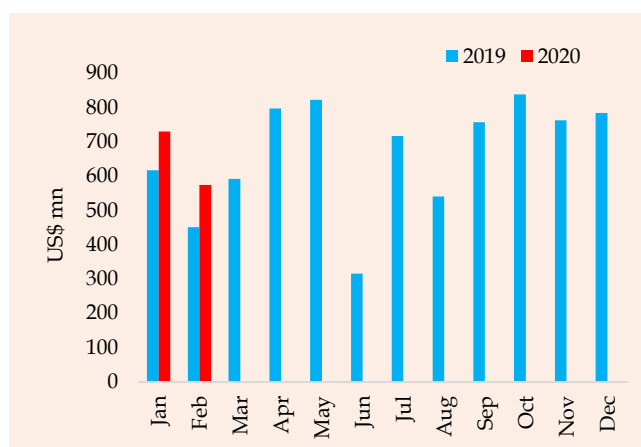
- The **deficit in the trade account** widened in February 2020 to US dollars 574 million, from US dollars 451 million in February 2019, as the increase in imports surpassed the increase in exports. However, on a month on month basis, the trade deficit in February 2020 recorded a contraction. On a cumulative basis, the trade deficit widened to US dollars 1,304 million during the first two months of 2020 compared to US dollars 1,069 million in the corresponding period of 2019. The major contributory factors for the increase in the trade deficit are depicted in Figure 1.
- Meanwhile, **terms of trade**, i.e., the ratio of the price of exports to the price of imports, deteriorated by 3.5 per cent (year on year) in February 2020, as export prices declined at a faster pace than the decline in import prices.

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



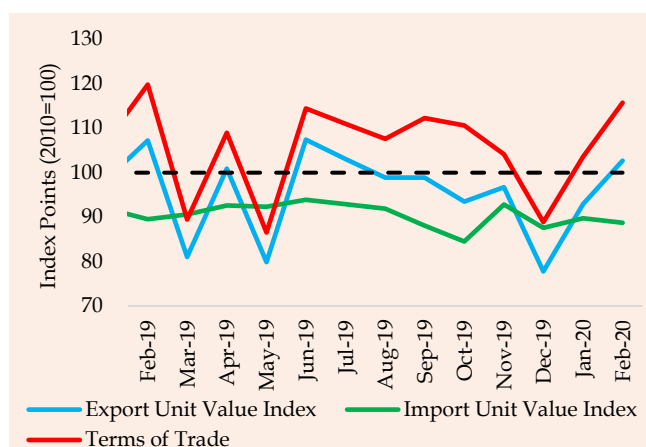
Sources: SLC, CBSL

Figure 2: Monthly Trade Deficit (2019 - 2020)



Sources: SLC, CBSL

Figure 3: Terms of Trade (2019 - 2020)



Source: CBSL

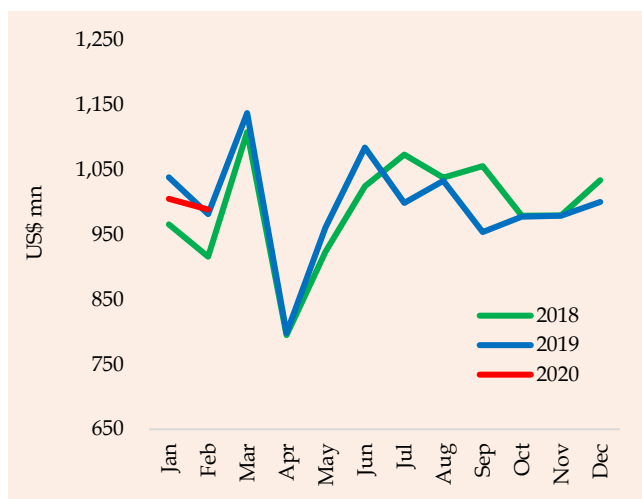
Performance of Merchandise Exports

- Earnings from **merchandise exports** increased in February 2020 for the first time since June 2019 by 0.7 per cent to US dollars 988 million, year-on-year, led by the increase in industrial exports though agricultural and mineral exports declined in comparison to February 2019.
- Earnings from **industrial exports** increased in February 2020 in comparison to February 2019. Higher prices and increased quantities of bunker and aviation fuel helped earnings from petroleum product exports to grow considerably in February 2020. Despite the decline in earnings from garment exports from the USA, export earnings from textiles and garments increased, albeit marginally, due to increased exports of textiles and other made up textile articles. Export earnings from other major sub categories such as machinery and mechanical appliances, rubber products,

food, beverages and tobacco also recorded increases during the month. However, export earnings from gems, diamonds and jewellery, wood and paper products, leather, travel goods and footwear, base metals and articles, chemical products and transport equipment declined compared to February 2019.

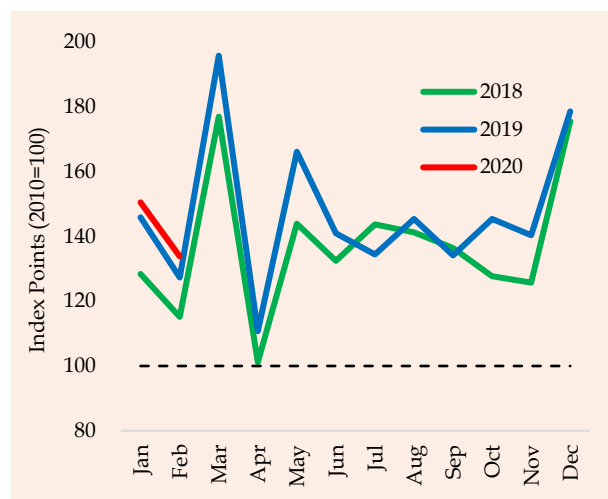
- Earnings from **agricultural exports** declined in February 2020, on a year on year basis. Lower volumes exported led earnings from spices and coconut to decline in February 2020, while lower average export prices resulted in earnings from tea exports to decline. Amidst lower demand from the USA and the EU, earnings from seafood exports also declined in February 2020. In contrast, earnings from export of minor agricultural products and natural rubber increased notably during the month.
- Earnings from **mineral exports** recorded a decline in February 2020, year on year, led by lower earnings from earths and stone exports.
- The export volume index in February 2020 improved by 5.2 per cent, while the export unit value index declined by 4.2 per cent, indicating that the increase in exports was driven entirely by higher volumes when compared to February 2019.

Figure 4: Monthly Export Performance



Sources: SLC, CBSL

Figure 5: Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	February 2019 (US\$ mn)	February 2020 (US\$ mn)	Change (%)	Jan-Feb 2019 (US\$ mn)	Jan-Feb 2020 (US\$ mn)	Change (%)
1. Industrial exports	769.5	790.0	2.7	1,595.9	1,602.6	0.4
Food, beverages and tobacco	35.5	36.6	3.1	88.6	72.1	-18.6
Animal fodder	9.7	11.0	12.4	26.6	19.6	-26.1
Textiles and garments	465.6	468.1	0.5	941.5	942.2	0.1
o/w Garments	434.0	433.7	-0.1	878.5	869.8	-1.0
Textiles	23.3	25.1	7.6	46.3	52.4	13.1
Other made up textile articles	8.3	9.3	12.4	16.7	20.1	20.2
Rubber products	69.7	71.5	2.6	150.3	141.7	-5.7
Gems, diamonds and jewellery	27.1	21.3	-21.3	51.2	46.0	-10.1
Machinery and mechanical appliances	32.2	34.8	7.9	69.1	65.3	-5.5
Transport equipment	7.2	6.9	-3.9	16.1	14.1	-11.9
Petroleum products	38.6	57.8	50.0	76.0	140.6	84.9
Chemical products	13.2	12.9	-2.2	28.1	28.1	0.0
Wood and paper products	15.4	11.2	-27.3	27.5	21.2	-22.9
Printing industry products	0.8	3.0	279.7	6.9	7.7	13.0
Leather, travel goods and footwear	10.6	7.3	-30.5	23.7	12.9	-45.5
Plastics and articles thereof	5.4	6.0	12.2	12.2	11.5	-5.3
Base metals and articles	15.2	12.1	-20.7	29.3	24.8	-15.4
Ceramic products	2.4	2.6	12.2	4.8	4.8	-0.1
Other	20.9	26.6	27.5	44.1	49.7	12.9
2. Agricultural exports	207.8	195.1	-6.1	415.4	383.8	-7.6
Tea	110.6	107.8	-2.5	221.4	207.5	-6.2
Rubber	2.3	3.1	34.4	5.1	5.8	13.8
Coconut	27.3	26.2	-4.3	53.0	50.7	-4.4
Spices	28.6	18.7	-34.7	56.4	38.1	-32.4
Vegetables	2.5	2.4	-4.5	5.1	5.0	-2.4
Unmanufactured tobacco	1.9	1.7	-6.8	4.0	3.4	-15.5
Minor agricultural products	9.3	14.7	58.4	17.7	29.0	64.4
Seafood	25.3	20.6	-18.8	52.7	44.2	-16.1
3. Mineral exports	2.2	1.8	-15.2	4.6	3.9	-15.3
4. Unclassified exports	1.6	1.5	-10.8	3.4	3.0	-10.2
Total exports	981.1	988.4	0.7	2,019.3	1,993.3	-1.3

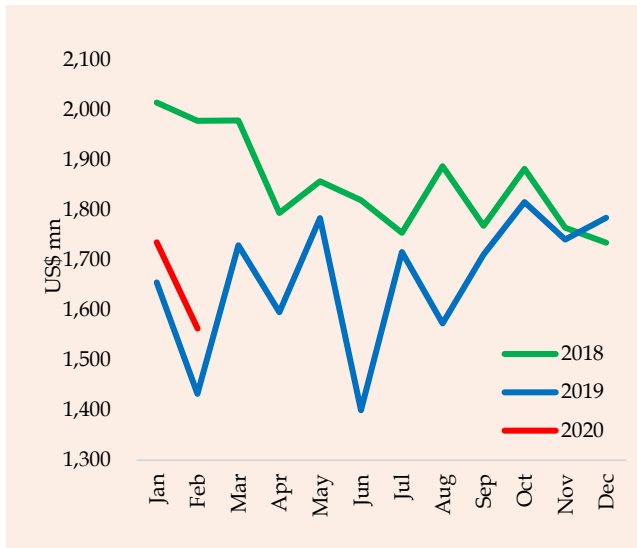
(a) Provisional

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

Performance of Merchandise Imports

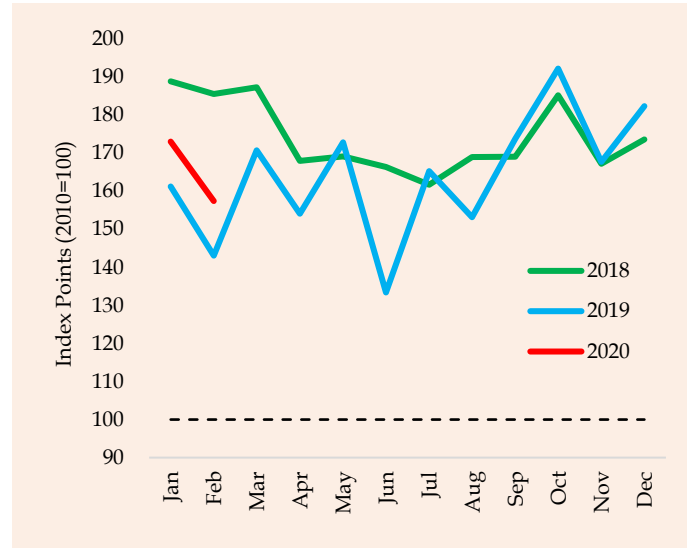
- Expenditure on **merchandise imports** increased notably, on a year on year basis, in February 2020 for the third consecutive month, though recorded a decline on month on month basis. Accordingly, expenditure on imports increased by 9.1 per cent to US dollars 1,562 million in February 2020 driven by higher consumer and intermediate goods imports partly due to the lower base recorded in February 2019. However, expenditure on non fuel imports declined, indicating that the increase in import expenditure was driven by fuel imports.
- Expenditure on **consumer goods** imports increased in February 2020, on a year on year basis. Under food and beverages, dairy products (mainly milk powder), vegetables (mainly big onions and potatoes), sugar, spices (mainly chillies) and beverages (mainly alcoholic beverages) imports increased. Under non food consumer goods category, expenditure on the importation of personal motor vehicles and most of the items in other subcategories increased on a year on year basis, in February 2020 due to the base effect.
- Expenditure on imports of **intermediate goods** also increased in February 2020, from a year earlier. Higher volumes of crude oil, refined petroleum and coal imports led expenditure on fuel to increase during the month, although average import prices remained low compared to February 2019. Expenditure on food preparations (mainly palm oil), rubber and articles thereof, fertiliser (mainly urea), chemical products imports also increased in February 2020. However, textiles and textile articles imports declined significantly, led by lower imports from China due to supply chain disruptions amidst the COVID-19 pandemic.
- Meanwhile, expenditure on **investment goods** imports declined in February 2020 compared to February 2019. Expenditure on machinery and equipment imports declined, although machinery and equipment parts imports increased notably. Expenditure on transport equipment and building materials also declined.
- The import volume index increased by 10.0 per cent, while the unit value index declined by 0.8 per cent in February 2020, indicating that the increase in imports was driven entirely by higher volumes when compared to February 2019.

Figure 6: Monthly Import Performance



Sources: SLC, CBSL

Figure 7: Import Volume Index



Source: CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	February 2019 (US\$ mn)	February 2020 (US\$ mn)	Change (%)	Jan-Feb 2019 (US\$ mn)	Jan-Feb 2020 (US\$ mn)	Change (%)
1. Consumer goods	259.9	327.3	25.9	560.4	699.0	24.7
Food and beverages	85.7	135.8	58.5	196.9	283.4	43.9
Cereals and milling industry products	3.2	4.5	41.6	7.1	9.9	39.1
Dairy products	6.1	28.0	359.4	24.0	64.3	168.3
o/w Milk powder	4.8	26.4	445.9	21.6	61.0	183.0
Vegetables	19.9	30.0	51.1	44.5	65.9	48.3
Seafood	14.9	11.7	-21.0	33.3	28.9	-13.2
Sugar and confectionery	13.9	25.8	85.4	28.9	45.8	58.8
Spices	10.0	13.4	33.3	18.8	23.7	26.2
Other food and beverages	17.8	22.3	25.8	40.3	44.7	10.9
Non-food consumer goods	174.2	191.4	9.9	363.5	415.7	14.3
Personal vehicles	48.1	53.6	11.3	97.7	116.9	19.7
Medical and pharmaceuticals	36.4	42.2	16.1	77.7	91.0	17.2
Home appliances	15.4	19.7	27.9	29.7	39.7	33.6
Clothing and accessories	24.2	27.8	14.6	52.6	58.0	10.3
Telecommunication devices	18.4	18.0	-2.5	38.8	41.3	6.4
Household and furniture items	11.4	13.2	15.4	24.8	31.0	25.0
Other non-food consumables	20.3	17.1	-15.7	42.4	37.8	-10.7
2. Intermediate goods	831.0	911.5	9.7	1,787.1	1,846.0	3.3
Fuel	281.8	418.7	48.6	610.8	710.6	16.3
o/w Crude oil	48.0	93.4	94.9	135.8	140.3	3.4
Refined petroleum	201.5	289.4	43.7	387.5	496.6	28.2
Coal	32.4	35.9	10.8	87.5	73.6	-15.9
Diamonds, precious stones and metals	16.4	6.3	-61.3	32.9	20.2	-38.5
Textiles and textile articles	212.2	182.0	-14.2	474.7	482.8	1.7
Paper and paperboard and articles thereof	31.0	32.3	4.3	69.6	70.5	1.3
Agricultural inputs	12.6	15.7	24.7	27.8	36.3	30.7
Wheat and maize	26.7	8.4	-68.5	41.2	17.3	-58.0
Base metals	59.4	20.4	-65.6	106.1	45.6	-57.0
Plastic and articles thereof	43.3	45.2	4.2	96.3	94.9	-1.5
Chemical products	60.3	64.4	6.8	136.4	138.5	1.5
Fertiliser	5.3	13.2	148.8	9.1	19.2	111.9
Rubber and articles thereof	16.0	24.3	52.0	35.6	46.9	31.6
Other intermediate goods	66.0	80.5	21.9	146.6	163.1	11.3
3. Investment goods	341.0	318.8	-6.5	739.5	747.0	1.0
Machinery and equipment	193.9	183.5	-5.4	425.1	442.1	4.0
Building material	108.8	102.5	-5.8	240.8	221.8	-7.9
Transport equipment	38.0	32.6	-14.2	72.8	82.5	13.3
Other investment goods	0.3	0.3	1.5	0.8	0.7	-19.7
4. Unclassified imports	0.5	4.8	849.6	0.8	5.7	580.4
Total imports	1,432.4	1,562.3	9.1	3,087.9	3,297.7	6.8
Non-fuel imports	1,150.6	1,143.6	-0.6	2,477.1	2,587.1	4.4

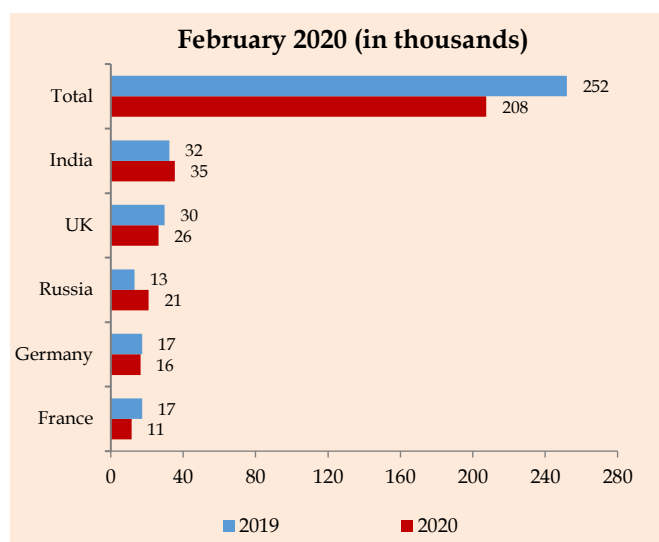
(a) Provisional

Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

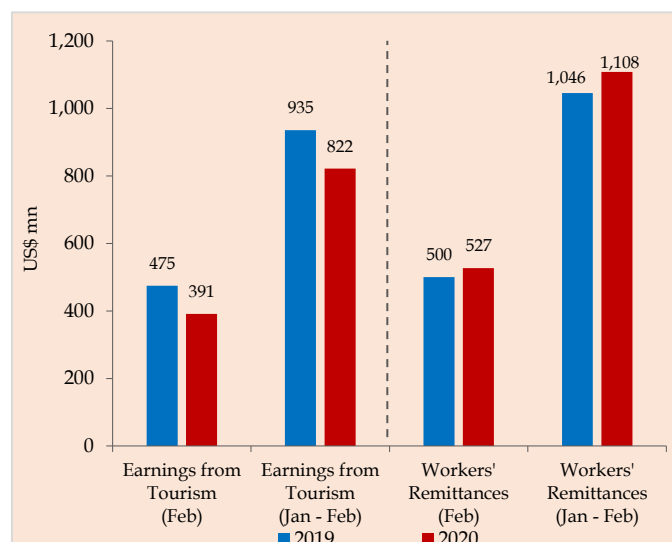
- The outbreak of COVID-19 and its global spread impacted the global tourism industry significantly from February 2020 onwards. Sri Lanka also experienced the same trend, with **tourist arrivals** in February 2020 declining by 17.7 per cent to 207,507 from 252,033 in February 2019. There was a significant decline in tourists from China, with Chinese tourist arrivals being only 2,096 in February 2020, compared to 28,039 arrivals in February 2019. Tourist arrivals from key destinations, such as France, the United States, Canada, the United Kingdom and Germany also declined, while arrivals from Russia, Poland and Ukraine increased on a year on year basis in February 2020.
- With these developments, **earnings from tourism** were provisionally estimated to have declined to US dollars 391 million in February 2020, in comparison to US dollars 475 million in February 2019, with cumulative earnings amounting to US dollars 822 million during the first two months of 2020. Earnings from tourism are likely to be severely affected during the rest of the year with the impact of the COVID-19 outbreak.
- Meanwhile, **workers' remittances** recorded a growth of 5.4 per cent in February 2020, year on year, amounting to US dollars 527 million. On a cumulative basis, workers' remittances grew by 6.0 per cent to US dollars 1,108 million during the first two months of 2020 in comparison to the corresponding period of 2019. Workers' remittances are also likely to be affected by the COVID-19 outbreak in the forthcoming months, with key sources of remittances such as Italy, South Korea and the Middle East being affected by the pandemic and the resultant economic slowdown.

Figure 8: Top Five Countries of Tourist Arrivals



Source: SLTDA

Figure 9: Tourism and Workers' Remittances



Sources: SLTDA, Licensed Banks, CBSL

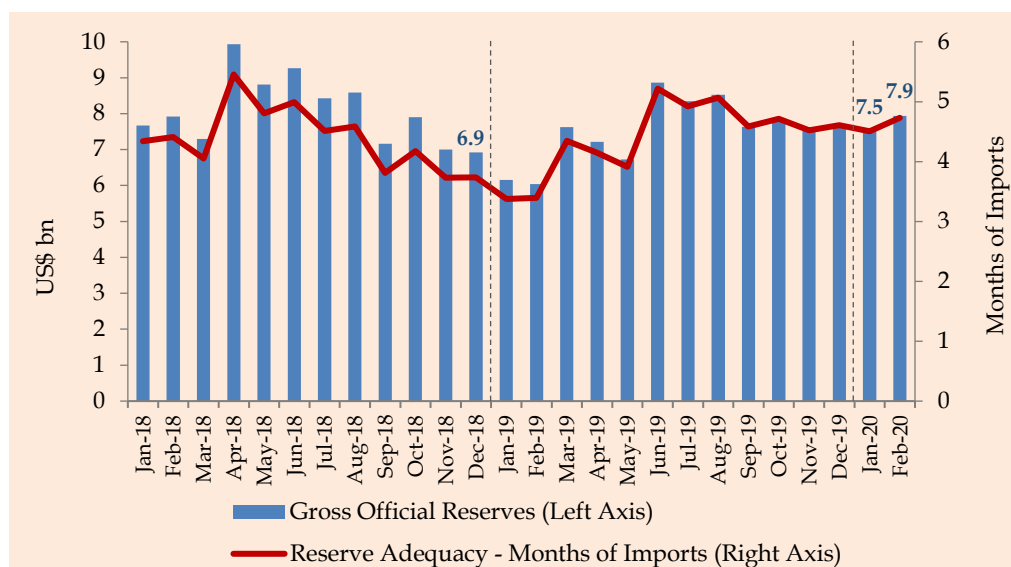
Financial Flows

- A net outflow of the foreign investment amounting to US dollars 118 million was recorded from the rupee denominated government securities market in February 2020, resulting in a cumulative net outflow of US dollars 99 million during the first two months of 2020.
- Foreign investment in the CSE, including primary and secondary market transactions, recorded a net outflow of US dollars 6 million during February 2020. On a cumulative basis, the CSE recorded a net outflow of US dollars 22 million in the first two months of 2020.
- Gross inflows on account of long term loans to the government amounted to US dollars 69 million resulting in a marginal net inflow of US dollars 0.4 million during February 2020, with both foreign loan disbursements and repayments remaining at similar levels.

International Reserves

- Gross official reserves stood at US dollars 7.9 billion at end February 2020, equivalent to 4.7 months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 10.9 billion at end February 2020, equivalent to 6.5 months of imports.

Figure 10: Gross Official Reserves and Reserve Adequacy

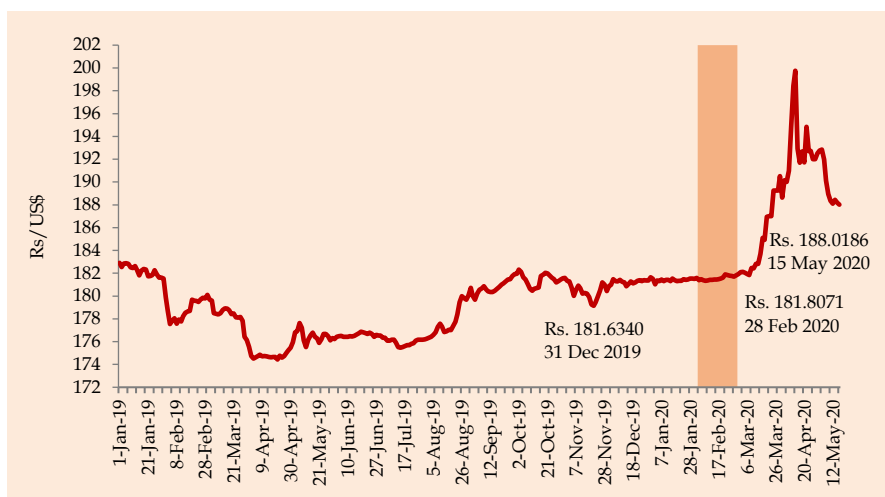


Source: CBSL

Exchange Rate Movements

- The Sri Lankan rupee, which remained stable until mid-March 2020, depreciated sharply during the latter part of March up to mid-April 2020, mainly due to adverse speculation in the market with the spread of COVID-19 outbreak. However, the exchange rate gradually stabilised, with a notable appreciation in the first week of May 2020. Accordingly, the rupee recorded a depreciation of 3.4 per cent against the US dollar by 15 May 2020. Reflecting cross-currency movements, the rupee depreciated against the Japanese yen while appreciating against the euro, the pound sterling, the Canadian dollar, the Australian dollar and the Indian rupee during the year up to 15 May 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 15 May) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+0.6%	-3.4%
Euro	-12.7%	+2.6%	+0.3%
Pound sterling	-11.4%	-2.8%	+3.9%
Japanese yen	-18.1%	-1.0%	-4.6%
Canadian dollar	-9.3%	-3.7%	+4.1%
Australian dollar	-7.6%	+1.3%	+4.9%
Indian rupee	-8.7%	+2.6%	+2.2%

Source: CBSL