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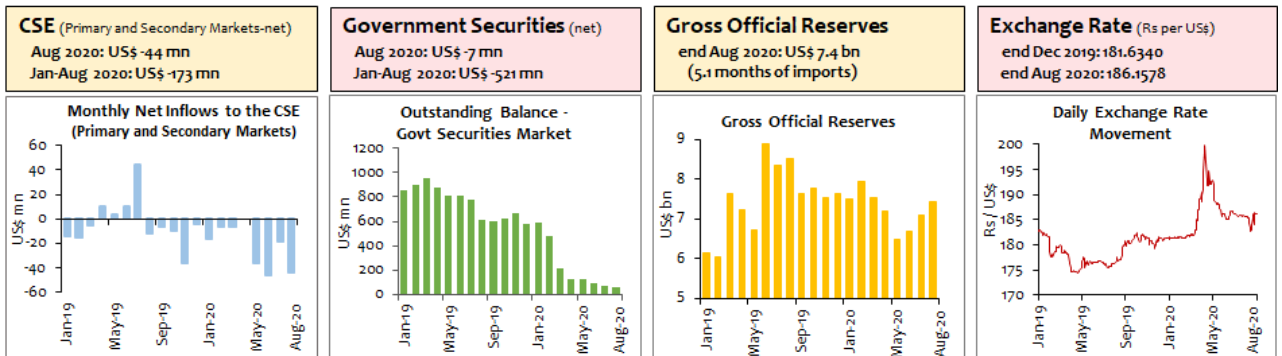
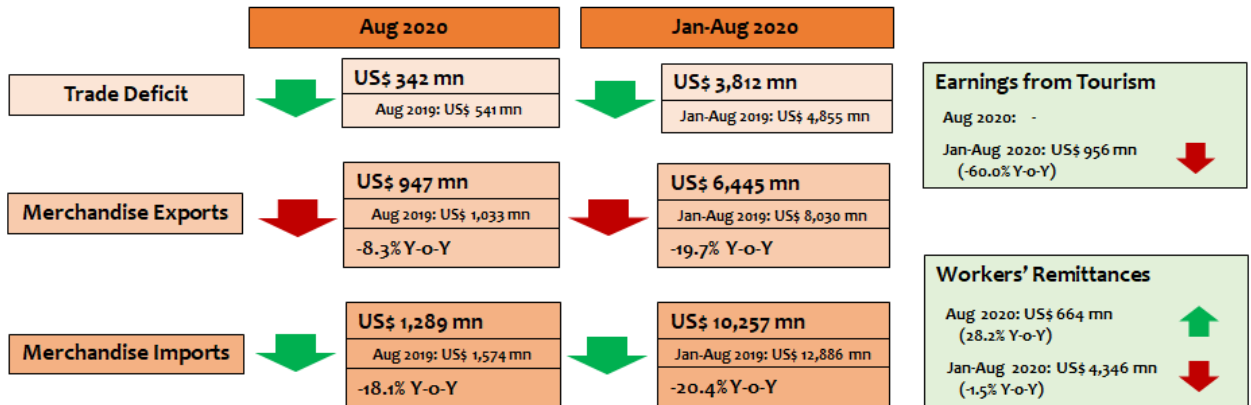
Press Release

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External Sector Performance - August 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 continued to recover in relation to many aspects during August 2020, mainly supported by an improved trade deficit and a notable increase in workers' remittances. The trade deficit improved on a year-on-year basis, with the reduction in merchandise imports due to regulatory restrictions on the importation of non-essential goods and lower crude oil prices, despite earnings from merchandise exports recording a year-on-year decline during the month. Nevertheless, the export performance remained strong for the third consecutive month in spite of the pandemic affected global demand. Meanwhile, workers' remittances recorded a substantial growth in August 2020, strengthening the current account. In the financial account, marginal foreign investment outflows were recorded from the government securities market, while the Colombo Stock Exchange (CSE) also recorded some foreign investment outflows during the month. With increased net inflows to the domestic foreign exchange market, the Central Bank was able to absorb foreign exchange during the month to build up gross official reserves. The Sri Lankan rupee, which demonstrated some volatility in mid August, stabilised towards the end of the month.

Table 1: Summary of External Sector Performance (a)

Category	Aug 2019 US\$ mn	Aug 2020 US\$ mn	Change (%)	Jan-Aug 2019 US\$ mn	Jan-Aug 2020 US\$ mn	Change (%)
Merchandise Exports	1,033	947	-8.3	8,030	6,445	-19.7
Merchandise Imports	1,574	1,289	-18.1	12,886	10,257	-20.4
Trade balance	-541	-342		-4,855	-3,812	
Earnings from tourism	271 (b)	-	-	2,389 (b)	956 (c)	-60.0
Workers' remittances	518	664	28.2	4,414	4,346	-1.5
Inflows to the CSE (net) (d)	-12	-44		22	-173	
Inflows to the Government (gross)	269	114		5,935	1,417	
Treasury bills and bonds	16	1		432	91	
Long term loans	254	113		1,103	1,325	
International Sovereign Bonds	-	-		4,400	-	
Foreign Direct Investment (e)				535	345	
Overall Balance				1,451	-722	

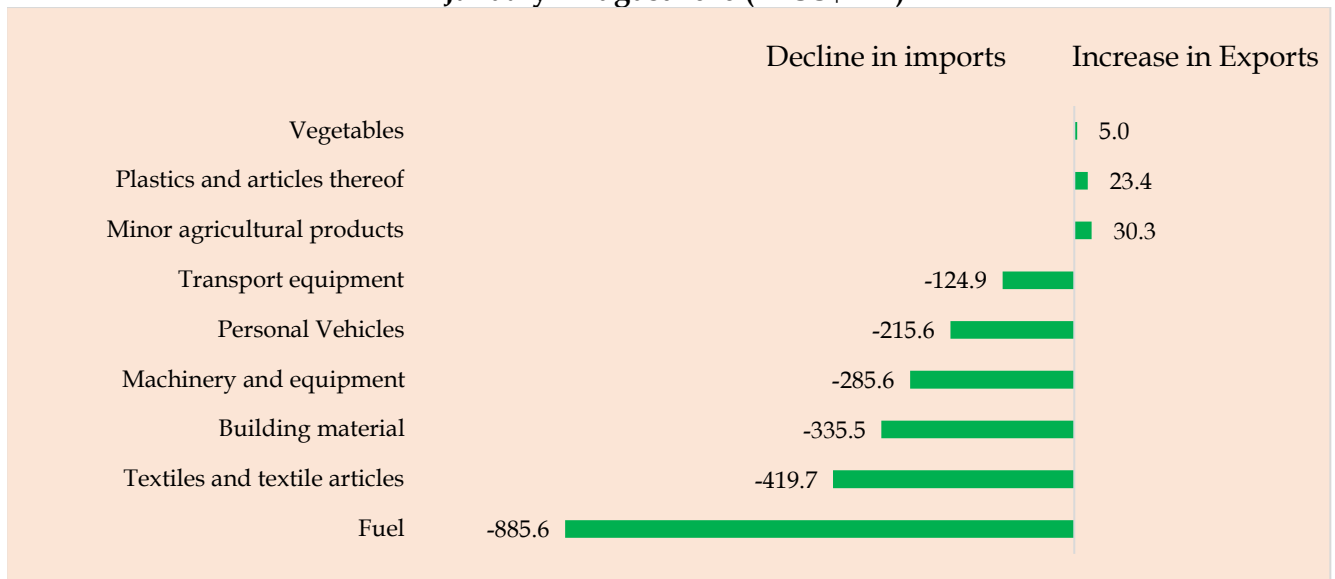
Sources: Sri Lanka Customs (SLC), Sri Lanka Tourism Development Authority (SLTDA), Colombo Stock Exchange (CSE), Board of Investment of Sri Lanka (BOI), Central Bank of Sri Lanka (CBSL)

- (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 six 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

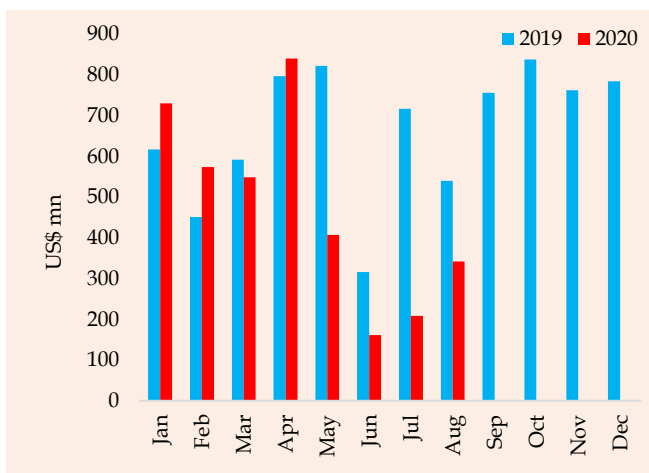
- The **deficit in the trade account** in August 2020 narrowed to US dollars 342 million from US dollars 541 million in August 2019, as imports declined at a faster pace than the decline in exports. Also, on a cumulative basis, the trade deficit narrowed by over US dollar one billion to US dollars 3,812 million during the period from January to August 2020 from US dollars 4,855 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, improved by 4.6 per cent (year-on-year) in August 2020 as import prices declined at a faster pace than the decline in export prices.

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



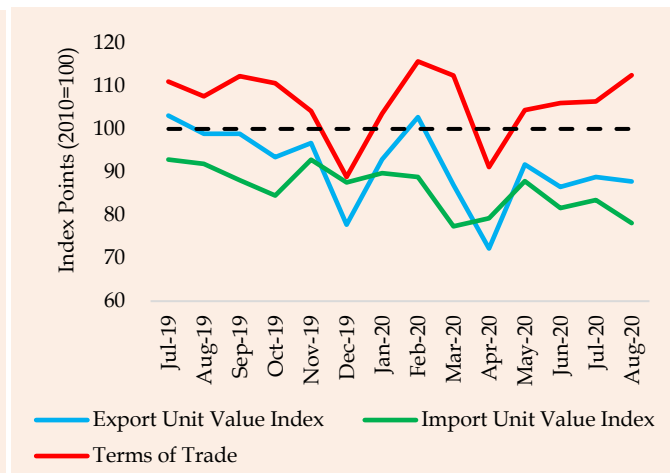
Sources: SLC, CBSL

Figure 2: Monthly Trade Deficit (2019 - 2020)



Sources: SLC, CBSL

Figure 3: Terms of Trade (2019 - 2020)



Source: CBSL

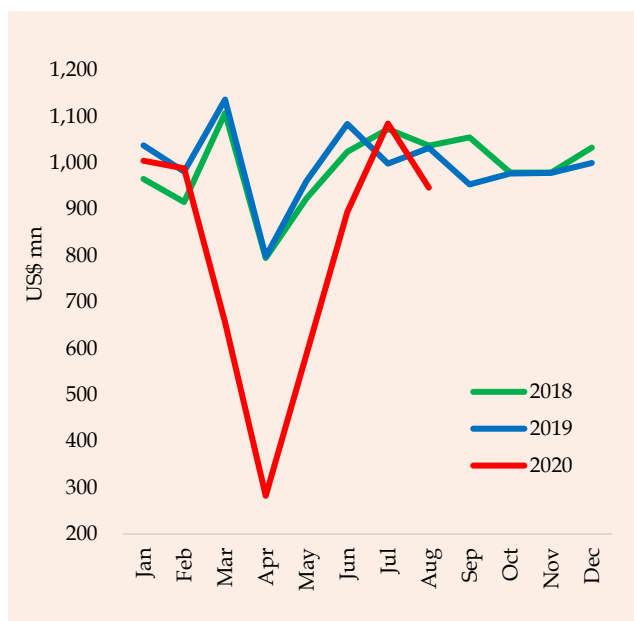
Performance of Merchandise Exports

- Although export performance remained robust considering the current global market conditions, earnings from **merchandise exports** declined both on a year-on-year basis as well as on a month-on-month basis in August 2020. Accordingly, merchandise exports declined to US dollars 947 million in August 2020 compared to US dollars 1,033 million recorded in August 2019 and US dollars 1,085 million recorded in July 2020. The year-on-year decline emanated from declines recorded in earnings from all three major categories of exports, namely, industrial, agricultural, and mineral exports.
- Industrial exports declined by 10.2 per cent, year-on-year, in August 2020 mainly due to reduced earnings from exports related to textiles and garments, petroleum products, gems, diamonds and jewellery, leather, travel goods and footwear and base metals and articles. Earnings from textiles and garments declined by 11.9 per cent in August 2020, led by lower garments exports to the USA and the EU. However, a notable increase was recorded in earnings from personal protective equipment (PPE) such as face masks and protective suits, which are categorised under other made up articles. Earnings from petroleum exports declined, with lower bunkering quantities and prices. Meanwhile, earnings from rubber products declined, due to the decline in earnings from tyre exports although earnings from surgical and other gloves exports increased. In contrast, earnings from subcategories of plastics and articles thereof (mainly due to plastic clothing articles), and food, beverages and tobacco (mainly due to value added coconut products, such as liquid coconut milk, coconut cream and coconut milk powder) increased during the month of August 2020.
- Earnings from agricultural exports declined marginally on a year-on-year basis in August 2020. The decline in the overall earnings from agricultural exports led by tea exports, which declined considerably by 13.3 per cent, followed by seafood and rubber. Earnings from exports of tea declined due to the low export volume in spite of higher prices observed during the month of August 2020 compared with the corresponding period of previous year. Except these three subcategories, all other subcategories of agricultural exports recorded increases. Earnings from spices exports increased, led by higher export volumes of cinnamon and cloves in August 2020 compared with August 2019. Earnings from coconut exports increased, with increases in both kernel and non kernel products. Earnings from minor agricultural products increased in August 2020

compared with August 2019, as earnings from arecanuts continued to maintain the year-on-year increasing trend observed since September 2019.

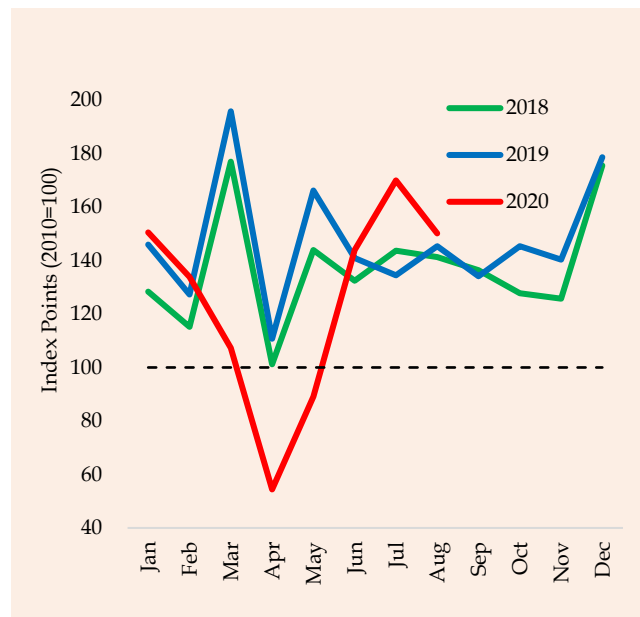
- Earnings from mineral exports declined in August 2020, year-on-year, led by lower earnings from ores, slag and ash exports, although earnings from earths and stone exports increased.
- The export volume index improved by 3.2 per cent, on a year-on-year basis, while the unit value index deteriorated by 11.2 per cent, on a year-on-year basis, in August 2020, indicating that the year-on-year decline in earnings from exports was, on average, driven by lower export prices.

Figure 4: Monthly Export Performance



Sources: SLC, CBSL

Figure 5: Monthly Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	August 2019 (US\$ mn)	August 2020 (US\$ mn)	Change (%)	Jan-Aug 2019 (US\$ mn)	Jan-Aug 2020 (US\$ mn)	Change (%)
1. Industrial exports	812.1	729.0	-10.2	6,330.2	4,905.5	-22.5
Food, beverages and tobacco	33.7	40.8	21.0	303.7	302.9	-0.3
Animal fodder	8.1	7.7	-5.1	88.8	75.6	-14.9
Textiles and garments	499.6	440.0	-11.9	3,736.6	2,853.1	-23.6
o/w Garments	464.4	389.6	-16.1	3,478.5	2,528.1	-27.3
Textiles	26.5	22.5	-14.9	187.5	154.9	-17.4
Other made up textile articles	8.8	28.0	218.3	70.5	170.1	141.1
Rubber products	72.8	71.0	-2.5	591.2	488.9	-17.3
Gems, diamonds and jewellery	24.3	12.2	-49.8	199.9	102.7	-48.7
Machinery and mechanical appliances	32.5	31.1	-4.4	275.0	209.5	-23.8
Transport equipment	6.0	7.1	18.5	120.5	46.2	-61.6
Petroleum products	42.6	22.0	-48.4	327.5	268.1	-18.1
Chemical products	17.0	15.7	-7.6	120.4	107.7	-10.6
Wood and paper products	10.0	9.3	-6.6	90.9	64.7	-28.8
Printing industry products	7.4	4.5	-38.8	31.4	25.9	-17.6
Leather, travel goods and footwear	9.7	5.7	-41.7	74.1	38.2	-48.5
Plastics and articles thereof	6.7	23.7	255.3	49.2	72.6	47.5
Base metals and articles	13.9	10.4	-24.8	120.9	76.0	-37.2
Ceramic products	2.8	1.8	-36.2	19.6	13.3	-32.1
Other industrial exports	25.1	25.9	3.3	180.3	160.2	-11.2
2. Agricultural exports	217.3	215.9	-0.7	1,667.4	1,516.0	-9.1
Tea	118.7	103.0	-13.3	915.0	805.6	-12.0
Rubber	1.7	1.5	-13.2	18.6	17.9	-4.2
Coconut	28.1	33.9	20.9	232.1	221.5	-4.6
Spices	33.3	39.7	19.2	203.4	194.5	-4.4
Vegetables	2.7	5.2	88.5	21.2	26.1	23.4
Unmanufactured tobacco	3.3	4.9	50.2	22.7	16.9	-25.2
Minor agricultural products	8.9	12.1	35.3	70.0	100.3	43.2
Seafood	20.5	15.6	-24.0	184.5	133.2	-27.8
3. Mineral exports	1.9	1.6	-14.1	21.3	14.3	-33.1
4. Unclassified exports	1.2	0.8	-37.4	11.3	9.3	-17.3
Total exports	1,032.5	947.2	-8.3	8,030.2	6,445.0	-19.7

(a) Provisional

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

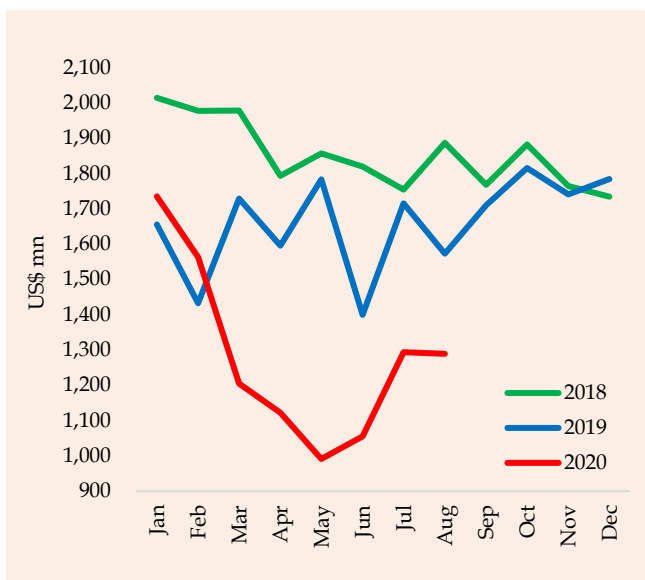
Performance of Merchandise Imports

- Continuing the year-on-year declining trend observed since March 2020, **merchandise imports** recorded a decline of 18.1 per cent to US dollars 1,289 million in August 2020. The continuation of measures taken by the Government to restrict the importation of selected non-essential goods and lower fuel prices in the international market primarily caused this decline.
- The expenditure on consumer goods declined, led by both food and beverages and non-food consumer goods imports. The non-food consumer goods imports declined with lower expenditure on all subcategories except telecommunication devices (mainly due to mobile phones). Expenditure on personal vehicle imports declined considerably by 98.4 per cent in August 2020. Import expenditure on food and beverages declined in August, led by dairy products (mainly milk powder), vegetables (mainly big onions), seafood (mainly canned fish), fruits (mainly apples and grapes) and beverages (mainly alcoholic beverages). However, import expenditure on oils and fats (mainly coconut oil), spices (mainly chilies), sugar and cereals and milling industry products (mainly malt) increased during the month of August 2020 when compared with August 2019.
- The expenditure on intermediate goods imports declined in August 2020, year-on-year, due to declines recorded in most of subcategories including textiles and textile articles (-16.7 per cent), fuel (-5.2 per cent) and fertiliser (-74.4 per cent). The reduction in expenditure in fuel imports was mainly due to lower petroleum prices in the international market while higher import volumes of crude oil and refined petroleum were observed in August 2020 compared to the corresponding period of the previous year. The average import price of crude oil declined to US dollars 47.74 per barrel in August 2020 from US dollars 64.78 a year ago. Meanwhile, the reduction in import expenditure of textiles and textile articles was led by lower imports of fabrics, fibres and yarn. Further, expenditure on all other sub categories under intermediate goods except wheat and maize, food preparations, agricultural inputs, mineral products and unmanufactured tobacco also declined in August 2020 compared to August 2019.
- The expenditure on investment goods declined notably, with declines in all sub categories in August 2020, on a year-on-year basis. Accordingly, expenditure on machinery and equipment (mainly telecommunications devices), building material (mainly iron and steel, articles of iron and steel and cement) and transport equipment

(mainly commercial vehicles such as auto trishaws, tankers and bowsers) declined in August 2020 when compared with August 2019.

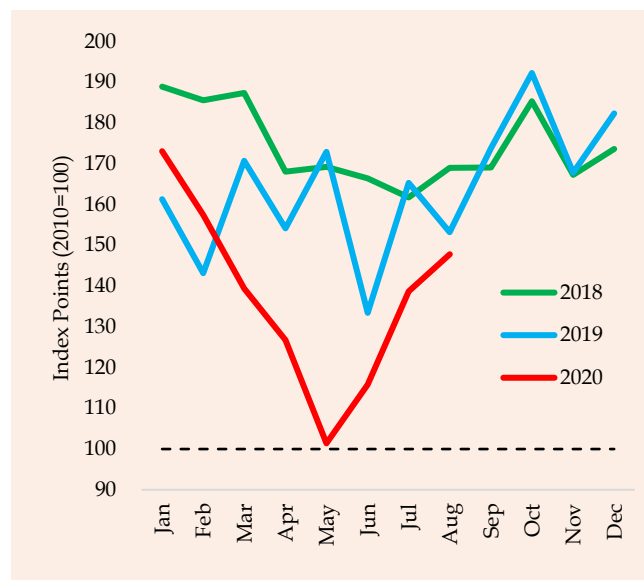
- Both the import volume index and the unit value index declined by 3.6 per cent and 15.1 per cent, respectively, on a year-on-year basis in August 2020, indicating that the decrease in import expenditure was caused both by lower volumes and lower prices.

Figure 6: Monthly Import Performance



Sources: SLC, CBSL

Figure 7: Monthly Import Volume Index



Source: CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	August 2019 (US\$ mn)	August 2020 (US\$ mn)	Change (%)	Jan-Aug 2019 (US\$ mn)	Jan-Aug 2020 (US\$ mn)	Change (%)
1. Consumer goods	332.1	228.6	-31.2	2,499.2	2,300.3	-8.0
Food and beverages	117.9	106.1	-10.0	917.1	1,023.7	11.6
Cereals and milling industry products	2.9	3.0	3.4	22.2	21.0	-5.3
Dairy products	38.0	23.0	-39.4	216.1	228.9	5.9
Vegetables (b)	22.5	18.4	-18.3	187.6	246.3	31.3
Seafood	18.0	12.7	-29.8	145.8	139.5	-4.3
Sugar and confectionery	13.0	18.5	42.0	126.4	162.6	28.6
Spices	6.7	8.0	19.1	68.1	84.2	23.6
Other food and beverages	16.8	22.6	34.6	151.0	141.2	-6.5
Non-food consumer goods	214.2	122.5	-42.8	1,582.0	1,276.7	-19.3
Personal vehicles	76.7	1.3	-98.4	496.4	280.8	-43.4
Medical and pharmaceuticals	50.9	47.6	-6.4	350.5	385.3	9.9
Home appliances	17.6	8.6	-51.1	131.3	100.4	-23.5
Clothing and accessories	18.4	13.2	-28.2	174.5	137.6	-21.1
Telecommunication devices	16.0	27.6	72.6	157.2	174.6	11.1
Household and furniture items	14.0	10.4	-25.6	104.7	91.6	-12.5
Other non-food consumables	20.4	13.7	-33.1	167.6	106.4	-36.5
2. Intermediate goods	863.8	791.3	-8.4	7,379.8	5,692.4	-22.9
Fuel	261.2	247.5	-5.2	2,576.8	1,691.2	-34.4
o/w Crude oil	45.3	69.3	52.8	630.8	387.6	-38.5
Refined petroleum	215.8	178.2	-17.4	1,820.7	1,174.4	-35.5
Coal	0.1	0.0	-33.3	125.3	129.2	3.1
Diamonds, precious stones and metals	8.9	7.9	-11.2	118.4	57.4	-51.5
Textiles and textile articles	233.5	194.4	-16.7	1,876.9	1,457.2	-22.4
Paper and paperboard and articles thereof	42.0	30.5	-27.3	295.5	239.5	-19.0
Agricultural inputs	13.3	14.6	10.0	127.1	132.5	4.3
Wheat and maize	24.9	46.0	84.9	203.4	229.3	12.7
Base metals	41.5	39.0	-6.2	366.2	246.6	-32.7
Plastic and articles thereof	50.0	48.9	-2.1	394.9	323.9	-18.0
Chemical products	66.8	65.3	-2.3	553.5	518.3	-6.4
Fertiliser	32.2	8.2	-74.4	137.5	124.3	-9.6
Rubber and articles thereof	22.3	17.0	-23.9	152.3	145.8	-4.3
Mineral products	11.3	14.3	26.4	137.0	107.6	-21.5
Other intermediate goods	55.9	57.5	2.8	440.2	418.7	-4.9
3. Investment goods	376.3	269.0	-28.5	3,001.8	2,253.2	-24.9
Machinery and equipment	184.4	177.6	-3.7	1,610.2	1,324.6	-17.7
Building material	132.6	82.0	-38.2	1,006.9	671.4	-33.3
Transport equipment	58.9	9.1	-84.5	380.2	255.3	-32.8
Other investment goods	0.4	0.2	-45.3	4.5	2.0	-56.5
4. Unclassified imports	1.4	0.2	-87.3	4.8	11.4	136.9
Total imports	1,573.6	1,289.1	-18.1	12,885.5	10,257.4	-20.4
Non-fuel imports	1,312.4	1,041.6	-20.6	10,308.8	8,566.1	-16.9

(a) Provisional

(b) Includes lentils, onions, potatoes, leguminous and other vegetables

Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

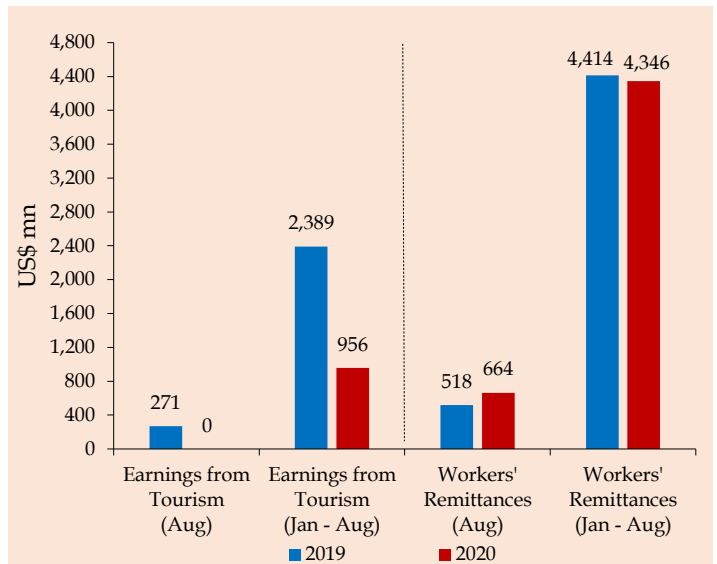
- No **tourist arrivals** were recorded for the fifth consecutive month in August 2020 as all airports and sea ports remained closed for tourist arrivals in view of the COVID-19 pandemic. Hence, cumulative tourist arrivals remained at 507,311 during the eight months ending August 2020, compared to 1,267,737 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 year up to August 2020, recording a drop of 60.0 per cent from the corresponding period of 2019.
- Meanwhile, **workers' remittances** recorded a notable increase for the third consecutive month, recording a growth of 28.2 per cent in August 2020, year-on-year, to US dollars 664 million. This increase helped limit the cumulative decline in workers' remittances to 1.5 per cent to US dollars 4,346 million during the period from January to August 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

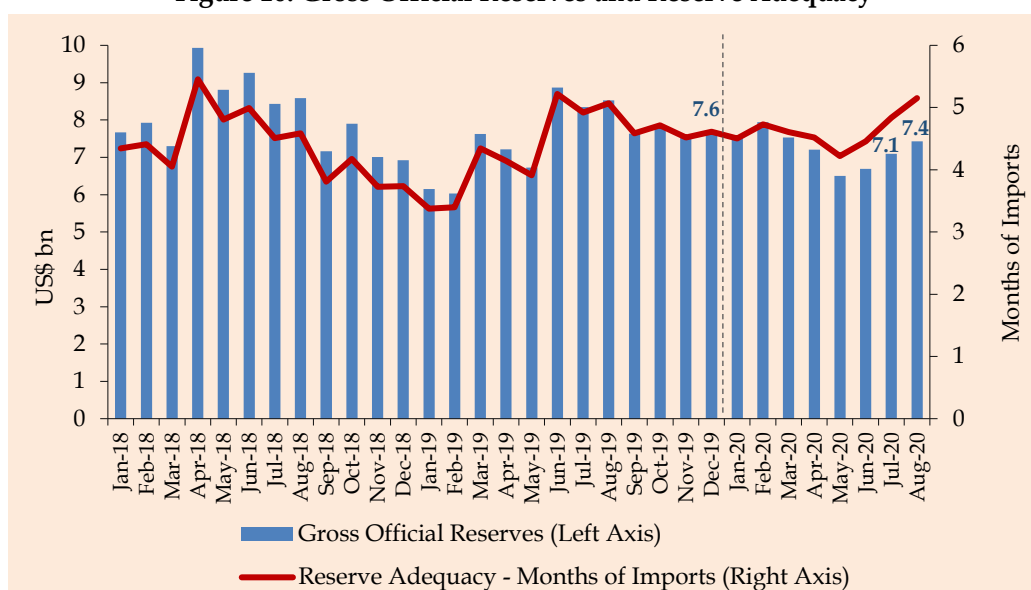
Financial Flows

- A marginal net outflow of foreign investment amounting to US dollars 7 million was recorded from the rupee denominated **government securities** market in August 2020, resulting in a cumulative net outflow of US dollars 521 million during the period from January - August 2020. The total outstanding exposure of foreign investment in the rupee denominated government securities market remained relatively negligible at US dollars 63 million by end August 2020.
- There were net outflows of US dollars 44 million from the secondary market of the CSE in August 2020. No primary market inflow was recorded during the month. On a cumulative basis, the CSE recorded a net outflow of US dollars 173 million (both primary and secondary markets) during the eight months ending August 2020.
- Meanwhile, **long term loans** to the government recorded a net inflow of US dollars 50 million in August 2020.

International Reserves

- The level of **gross official reserves** amounted to US dollars 7.4 billion as at end August 2020, which was equivalent to 5.1 months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 10.3 billion at end August 2020, providing an import cover of 7.2 months.

Figure 10: Gross Official Reserves and Reserve Adequacy



Source: CBSL

Exchange Rate Movements

- The Sri Lankan rupee, which appreciated since mid-April 2020, recorded a marginal depreciation of 0.3 per cent during August 2020 after demonstrating some volatility in the middle of the month. The overall depreciation of the rupee thus far during the year up to 09 October 2020 was 1.4 per cent. The Central Bank continued to intervene in the domestic foreign exchange market with a view to building up gross official reserves. During the year up to end September 2020, the Central Bank absorbed US dollars 255.1 million, on a net basis. Meanwhile, reflecting cross-currency movements, the Sri Lankan rupee depreciated against the euro, the pound sterling, the Japanese yen and the Australian dollar, while appreciating against the Indian rupee during the year up to 09 October 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 09 Oct) Depreciation (-)/ Appreciation (+)
US dollar	-16.4%	+0.6%	-1.4%
Euro	-12.7%	+2.6%	-6.1%
Pound sterling	-11.4%	-2.8%	-0.1%
Japanese yen	-18.1%	-1.0%	-3.9%
Australian dollar	-7.6%	+1.3%	-3.8%
Indian rupee	-8.7%	+2.6%	+1.3%

Source: CBSL