

PRESS RELEASE

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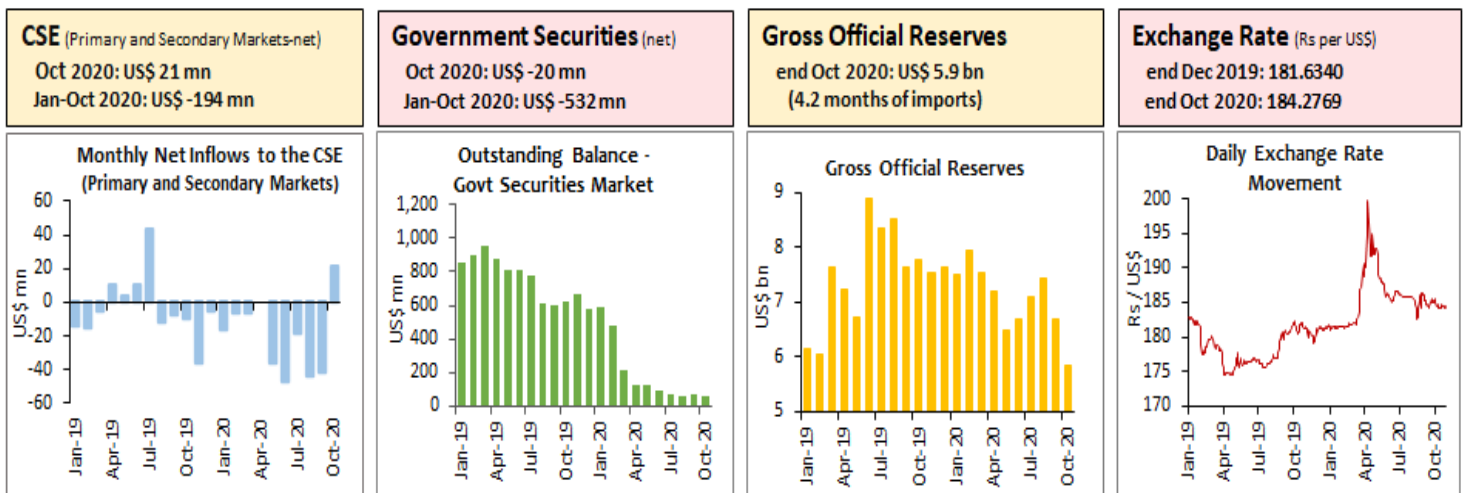
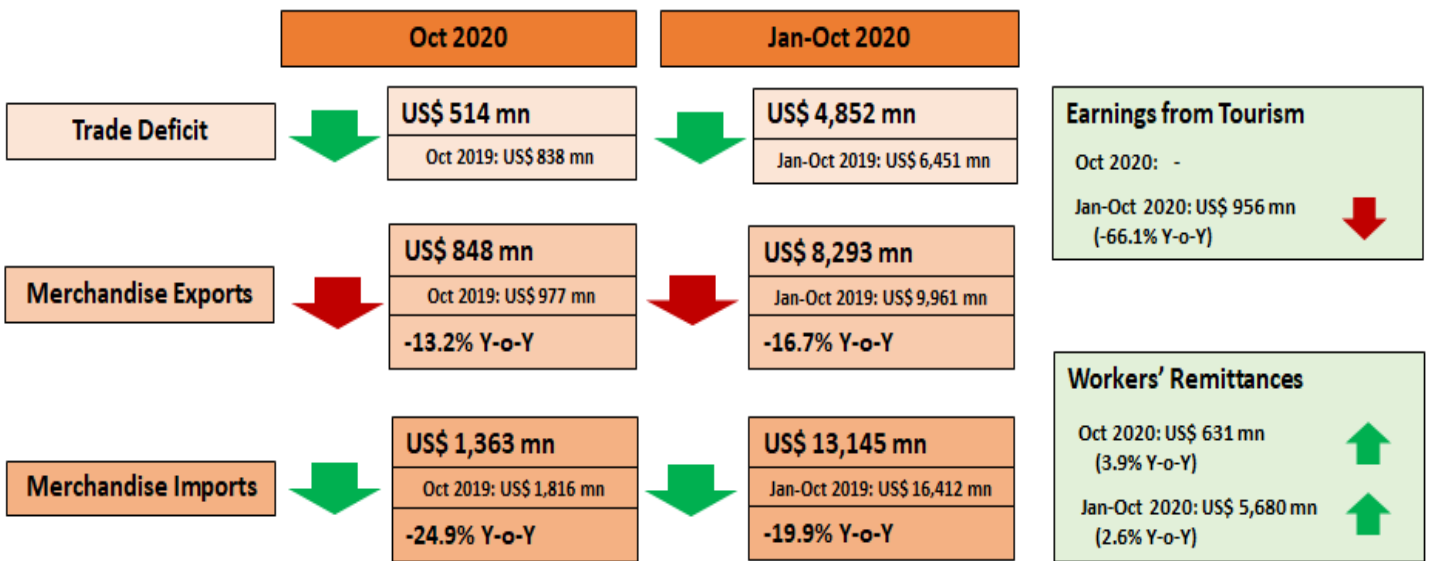
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 இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Issued By Economic Research Department

Date 14 December 2020

External Sector Performance – October 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

In October 2020, Sri Lanka's external sector exhibited its resilience with the successful repayment of the matured International Sovereign Bond (ISB) of US dollars 1.0 billion. During the month, external sector performance was supported by the continued improvement in the trade deficit, increase in workers' remittances and the resultant stability in the domestic foreign exchange market. While imports continued to be restrained under low global oil prices and import restrictions imposed by the Government, exports dropped in October 2020 due to the disruptions to local production and support services following the resurgence of COVID-19 cases since early October and weak demand from foreign buyers. Workers' remittances continued to record a year-on-year growth during the month. In the financial account, the Colombo Stock Exchange (CSE) recorded a marginal net foreign investment inflow, while the government securities market recorded a marginal net outflow in October 2020. Despite the repayment of the ISB, Sri Lanka maintained gross official reserve at US dollars 5.9 billion at end October 2020. Meanwhile, net inflows to the domestic foreign exchange market eased the pressure on the exchange rate, enabling the Central Bank to absorb foreign exchange during the month. Reflecting developments in the external sector, the Sri Lankan rupee appreciated marginally during the month of October 2020.

Table 1: Summary of External Sector Performance (a)

Category	Oct 2019 US\$ mn	Oct 2020 US\$ mn	Change (%)	Jan-Oct 2019 US\$ mn	Jan-Oct 2020 US\$ mn	Change (%)
Merchandise Exports	977	848	-13.2	9,961	8,293	-16.7
Merchandise Imports	1,816	1,363	-24.9	16,412	13,145	-19.9
Trade balance	-838	-514		-6,451	-4,852	
Earnings from tourism	224 (b)	-	-	2,818 (b)	956 (c)	-66.1
Workers' remittances	607	631	3.9	5,537	5,680	2.6
Inflows to the CSE (net) (d)	-10	21		5	-194	
Inflows to the Government (gross)	221	240		6,266	1,799	
Treasury bills and bonds (gross)	57	1		511	103	
Long term loans (gross)	164	239		1,356	1,697	
International Sovereign Bonds (gross)	-	-		4,400	-	
Foreign Direct Investment (gross) (e)				535	345	
Overall Balance				667	-2,083	

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)

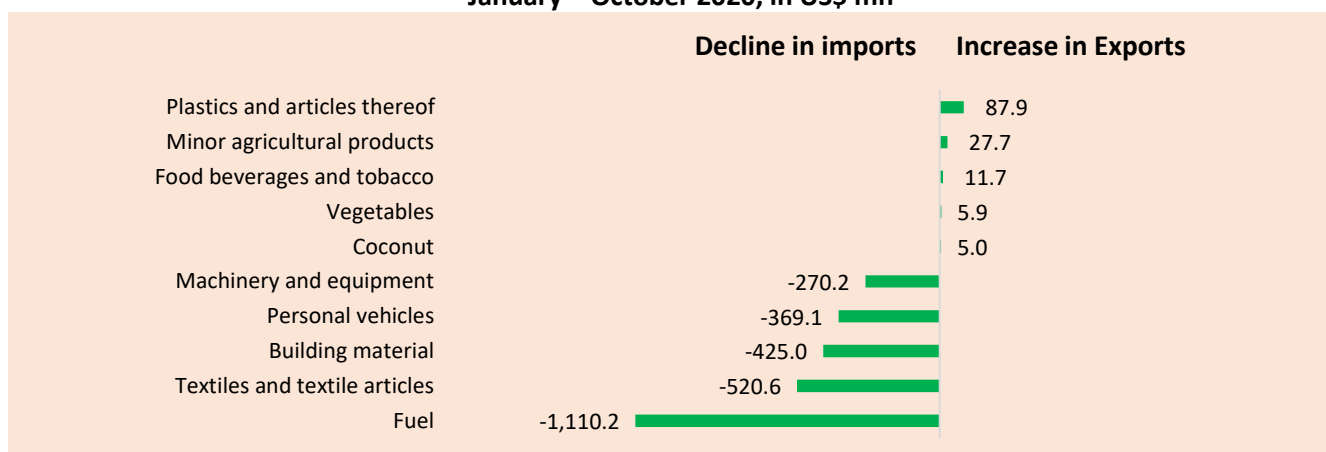
- (a) Provisional
- (b) Revised, based on survey results of SLTDA on average stay period and average spending per day estimates for 2019.
- (c) This provisional estimate may be revised once SLTDA releases its survey results for 2020.
- (d) Include primary and secondary transactions.
- (e) Data available 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 narrowed as a result of the decline in import expenditure outpacing the decline in export earnings in October 2020. A deficit of US dollars 514 million was recorded in the trade account in October 2020, which was significantly lower than the deficit of US dollars 838 million recorded in October 2019. The improvement in the trade balance was due to the decline in imports (US dollars 453 million), which was greater than the decline in exports (US dollars 129 million) during the period under review. The cumulative deficit in the trade account from January to October 2020 narrowed to US dollars 4,852 million from the deficit of US dollars 6,451 million recorded in the same period in 2019. The major contributory factors for this outcome are depicted in Figure 1.

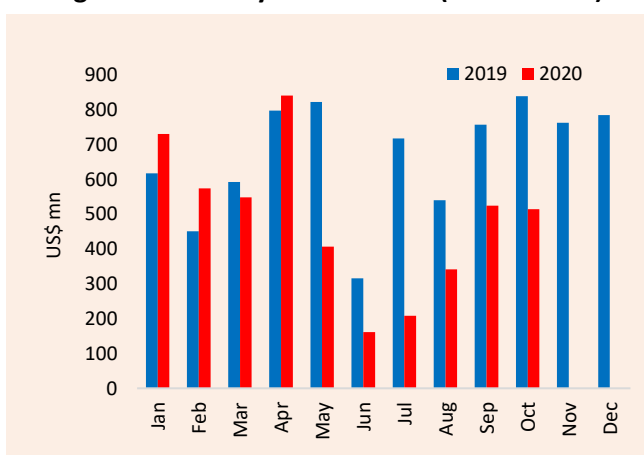
Meanwhile, terms of trade, i.e., the ratio of the price of exports to the price of imports, improved by 4.0 per cent in October 2020, compared to October 2019, due to import prices declining at a higher pace than the decline in export prices.

**Figure 1: Major Contributory Factors for the decline in the Trade Deficit
January – October 2020, in US\$ mn**



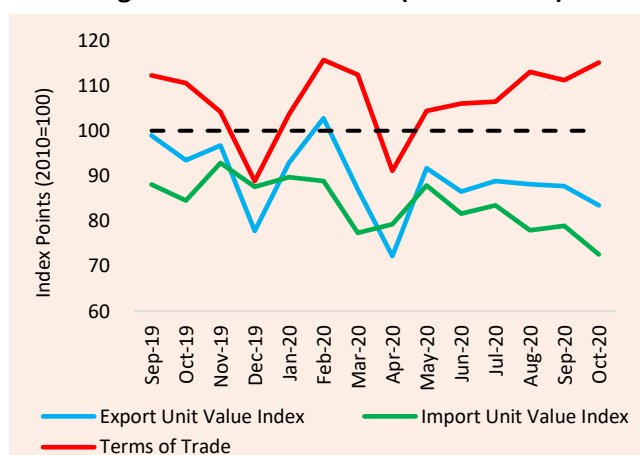
Sources: SLC, CBSL

Figure 2: Monthly Trade Deficit (2019 – 2020)



Sources: SLC, CBSL

Figure 3: Terms of Trade (2019 – 2020)



Source: CBSL

Performance of Merchandise Exports

Earnings from merchandise exports suffered in October 2020 due to the impact of the resurgence of COVID-19 cases, although exports of agricultural products continued to grow. Earnings from merchandise exports in October 2020 were lower compared to October 2019 as well as September 2020, due to the sudden outbreak of the second wave of the pandemic that resulted in disruptions to planned production and support services in the country, especially in the garment industry. Further, adverse global market conditions for Sri Lanka's key exports were aggravated by the second wave of the COVID-19 pandemic experienced by many countries, leading to low demand for exports of Sri Lanka. As a result, earnings from exports in October 2020 amounted to US dollars 848 million, which was 13.2 per cent lower than October 2019 and 15.2 per cent lower than September 2020.

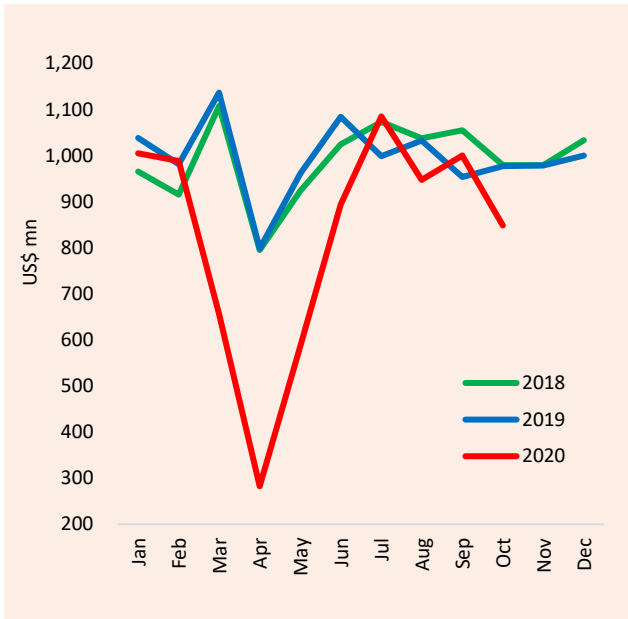
Earnings from the export of industrial goods declined by 16.9 per cent in October 2020, on a year-on-year basis, due to the weakened performance of the textiles and garments, and most of the smaller sectors, including gems, diamonds and jewellery; petroleum products; and machinery and mechanical appliances. The export of textiles and garments declined by 18.9 per cent, with reduced exports to the USA, the EU and other markets. However, export earnings from plastics and articles thereof and rubber products increased, led by their sub categories related to personal protective equipment (PPE) products such as plastic clothing articles, surgical and other gloves.

Export earnings from agricultural goods increased marginally by 0.6 per cent in October 2020, on a year-on-year basis, led by coconut exports (mainly coconut oil and non-kernel products), spices (mainly cinnamon) and natural rubber. Meanwhile, earnings from tea exports declined by 1.4 per cent due to the decline in volume of tea exports although unit value increased. Other agricultural export sectors which registered a decline during the period under review compared to October 2019 included seafood, minor agricultural products (mainly fruits and edible nuts), and unmanufactured tobacco.

Mineral exports declined by 36.8 per cent in October 2020 compared to October 2019. Exports of earths and stones such as quartz and granite increased, while exports of graphite powder and natural sands declined. Further, export of ores and slag such as titanium and zirconium also declined.

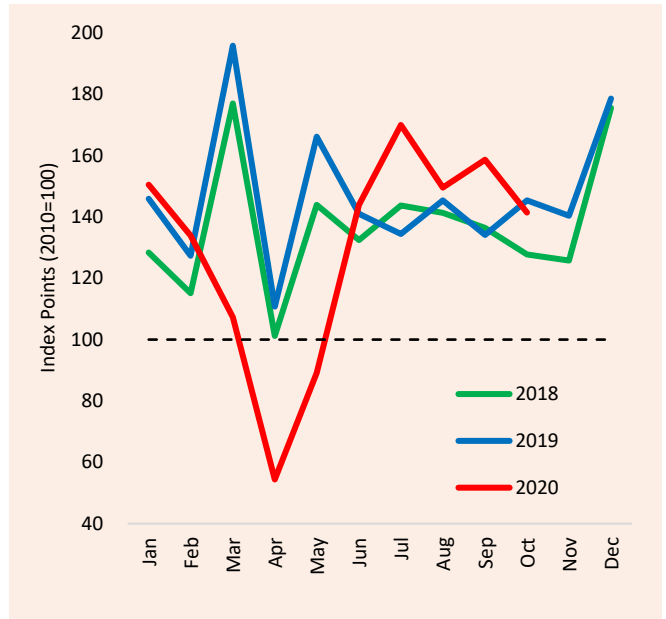
The export volume index declined by 2.8 per cent while the unit value index deteriorated by 10.6 per cent, on a year-on-year basis in October 2020, indicating that the decrease in export earnings was caused by both lower volumes and lower prices.

Figure 4: Monthly Export Performance



Sources: SLC, CBSL

Figure 5: Monthly Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	Oct 2019 (US\$ mn)	Oct 2020 (US\$ mn)	Change (%)	Jan-Oct 2019 (US\$ mn)	Jan-Oct 2020 (US\$ mn)	Change (%)
1. Industrial exports	762.1	633.3	-16.9	7,839.8	6,313.2	-19.5
Food, beverages and tobacco	38.7	39.1	1.0	376.0	387.7	3.1
Animal fodder	14.2	4.7	-66.7	109.1	88.6	-18.8
Textiles and garments	441.6	358.2	-18.9	4,628.4	3,645.0	-21.2
o/w Garments	407.9	325.7	-20.2	4,305.6	3,245.4	-24.6
Textiles	25.4	26.3	3.7	235.8	207.9	-11.8
Other made up textile articles	8.3	6.2	-25.1	87.0	191.8	120.3
Rubber products	70.3	77.9	10.8	732.5	644.8	-12.0
Gems, diamonds and jewellery	30.0	10.4	-65.3	254.6	133.3	-47.6
Machinery and mechanical appliances	33.4	20.8	-37.9	341.4	266.1	-22.1
Transport equipment	7.8	4.2	-45.3	135.2	58.7	-56.6
Petroleum products	41.5	24.4	-41.3	409.3	321.1	-21.5
Chemical products	14.5	16.0	10.4	148.7	139.7	-6.0
Wood and paper products	10.3	8.1	-21.5	111.7	82.5	-26.1
Printing industry products	5.4	2.6	-52.2	38.5	38.9	0.9
Leather, travel goods and footwear	7.0	3.0	-57.3	89.2	47.0	-47.3
Plastics and articles thereof	6.2	42.6	582.6	61.3	149.3	143.4
Base metals and articles	13.4	5.8	-56.8	148.7	90.4	-39.2
Ceramic products	2.2	1.7	-22.5	25.0	18.2	-27.0
Other industrial exports	25.7	13.9	-46.0	230.3	202.1	-12.2
2. Agricultural exports	210.2	211.4	0.6	2,079.1	1,949.9	-6.2
Tea	113.8	112.2	-1.4	1,139.1	1,031.8	-9.4
Rubber	1.2	2.4	106.4	21.3	22.3	4.9
Coconut	26.3	32.5	23.7	284.8	289.8	1.8
Spices	32.6	33.6	3.0	267.4	266.7	-0.3
Vegetables	2.9	4.4	52.2	27.0	32.9	22.0
Unmanufactured tobacco	2.2	2.0	-7.0	28.0	21.7	-22.4
Minor agricultural products	12.1	8.7	-28.0	92.1	119.8	30.0
Seafood	19.2	15.6	-18.9	219.6	165.0	-24.9
3. Mineral exports	3.5	2.2	-36.8	28.1	18.1	-35.6
4. Unclassified exports	1.5	1.6	3.4	14.2	12.2	-13.8
Total exports	977.3	848.4	-13.2	9,961.3	8,293.4	-16.7

(a) Provisional

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

Performance of Merchandise Imports

Merchandise imports declined considerably in October 2020 supported by lower crude oil prices and restrictions imposed by the Government on the importation of non-essential goods.

Expenditure on merchandise imports declined by 24.9 per cent to US dollars 1,363 million in October 2020 compared to October 2019, thus continuing the year-on-year declining trend observed since March 2020. Declines recorded in all major categories of imports, namely, consumer goods, intermediate goods, and investment goods, contributed to this outcome in October 2020.

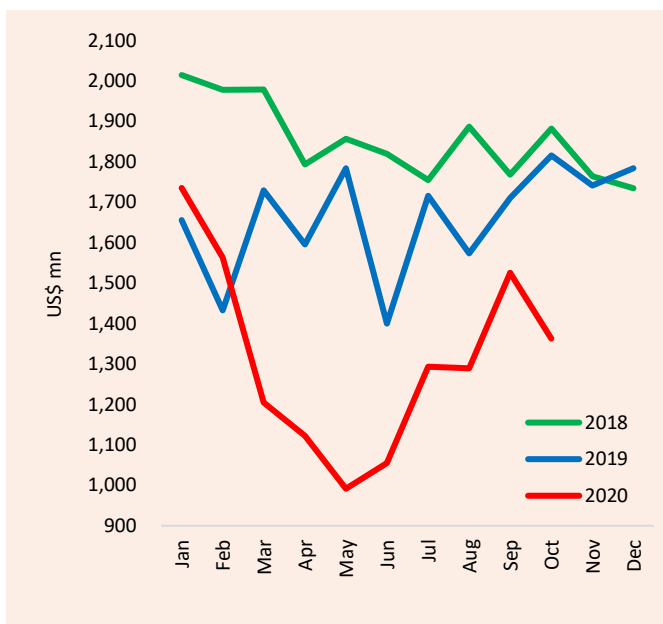
Expenditure on the importation of consumer goods in October 2020 was lower by 34.4 per cent compared to October 2019, mainly owing to the decline in the import of motor vehicles for personal use. Expenditure on the import of food and beverages declined by 4.7 per cent. Import expenditure on vegetables, fruits, seafood, dairy products, beverages, and cereals and milling industry products declined. In contrast, expenditure on sugar, oils and fats (mainly coconut oil) and spices (mainly chilli and coriander) imports registered increases. Sugar prices in the global market was the highest in October 2020 since March 2020 as well as October 2019, due to lower output in the main sugar producing countries owing to low rainfall. Import volume and unit values of both sugar and coconut oil also increased substantially in October 2020 compared to October 2019. Import expenditure on non-food consumer goods declined by 49.4 per cent, due to a decline in most types of imports under this category, led by personal motor vehicles. This reduction in consumer goods was partly attributed to import restrictions. Import expenditure on certain non-restricted items, such as pharmaceuticals, also declined.

Expenditure on the importation of intermediate goods declined by 21.4 per cent in October 2020 compared to October 2019, driven by a 27.5 per cent decline in expenditure on fuel imports, and a 21.3 per cent decline in textiles and textile articles used in manufacturing of garments. Almost all other large and small subcategories of intermediate goods also recorded declines. Expenditure on fuel imports declined due to a reduction in prices of all categories of fuel; crude oil, refined petroleum and coal imports, due to low oil prices in the world market. The average import price of crude oil in October 2020 was US dollars 41.77 per barrel in comparison to US dollars 66.06 per barrel in October 2019. Volumes imported of crude oil also declined, while refined petroleum and coal increased in October 2020 compared to October 2019.

Imports of investment goods declined by 24.9 per cent in October 2020 compared to October 2019, with reductions in all three major categories, namely, machinery and equipment, building material and transport equipment, as well as almost all subcategories under these three major categories. This outcome was partly attributed to import restrictions.

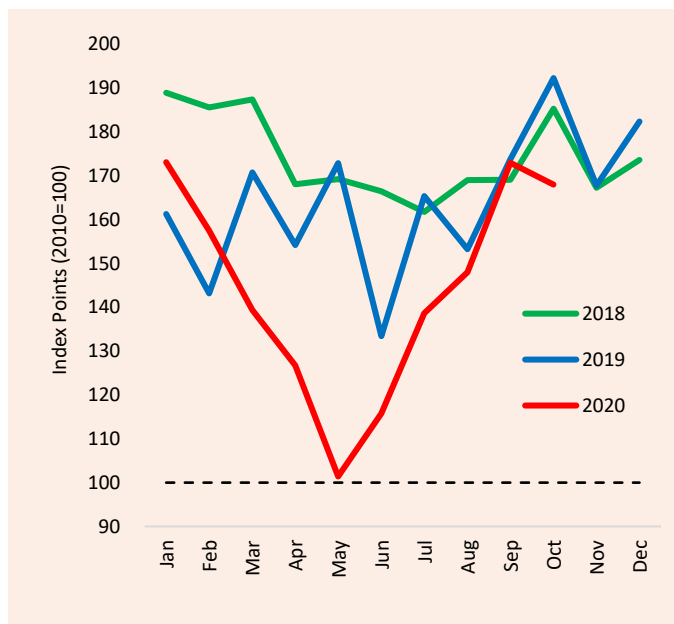
The import volume index and the unit value index declined by 12.6 per cent and 14.1 per cent, respectively, on a year-on-year basis in October 2020, indicating that the decrease in import expenditure was caused by both lower volumes and lower prices.

Figure 6: Monthly Import Performance



Sources: SLC, CBSL

Figure 7: Monthly Import Volume Index



Source: CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	Oct 2019 (US\$ mn)	Oct 2020 (US\$ mn)	Change (%)	Jan-Oct 2019 (US\$ mn)	Jan-Oct 2020 (US\$ mn)	Change (%)
1. Consumer goods	383.3	251.6	-34.4	3,195.3	2,818.4	-11.8
Food and beverages	128.9	122.8	-4.7	1,138.2	1,271.7	11.7
Cereals and milling industry products	4.0	3.3	-18.2	28.8	27.4	-5.0
Dairy products	25.5	20.3	-20.2	250.4	273.3	9.1
Vegetables (b)	29.6	17.6	-40.7	237.2	280.1	18.1
Seafood	19.0	11.5	-39.7	179.0	164.9	-7.9
Sugar and confectionery	17.5	32.8	87.3	160.2	233.4	45.7
Spices	10.6	11.7	10.5	90.1	106.0	17.7
Other food and beverages	22.7	25.8	13.4	192.5	186.6	-3.0
Non-food consumer goods	254.4	128.7	-49.4	2,057.1	1,546.7	-24.8
Personal vehicles	84.6	0.5	-99.4	651.0	281.9	-56.7
Medical and pharmaceuticals	54.2	51.9	-4.3	453.6	493.6	8.8
Home appliances	19.2	16.8	-12.5	165.7	134.2	-19.0
Clothing and accessories	26.9	12.8	-52.4	230.6	165.9	-28.1
Telecommunication devices	25.9	15.1	-41.6	199.4	210.7	5.7
Household and furniture items	17.7	13.5	-23.6	140.4	118.0	-16.0
Other non-food consumables	26.0	18.1	-30.3	216.4	142.4	-34.2
2. Intermediate goods	1,040.2	817.5	-21.4	9,420.7	7,393.2	-21.5
Fuel	308.3	223.4	-27.5	3,238.8	2,128.6	-34.3
o/w Crude oil	95.0	28.0	-70.5	824.3	479.2	-41.9
Refined petroleum	192.4	172.0	-10.6	2,245.2	1,481.3	-34.0
Coal	20.9	23.4	12.2	169.2	168.1	-0.6
Diamonds, precious stones and metals	19.0	13.5	-28.8	158.1	80.7	-48.9
Textiles and textile articles	277.1	218.1	-21.3	2,404.2	1,883.6	-21.7
Paper and paperboard and articles thereof	46.6	35.0	-24.9	382.7	312.1	-18.4
Agricultural inputs	14.9	14.2	-4.6	155.6	161.8	4.0
Wheat and maize	33.0	24.1	-27.1	266.9	314.1	17.7
Base metals	69.1	63.4	-8.2	477.8	385.4	-19.3
Plastic and articles thereof	61.0	51.8	-15.1	506.1	440.3	-13.0
Chemical products	76.9	71.8	-6.6	698.2	669.9	-4.1
Fertiliser	27.4	22.5	-18.1	194.9	161.5	-17.1
Rubber and articles thereof	24.6	17.4	-29.3	199.5	182.7	-8.4
Mineral products	26.4	11.5	-56.5	185.4	143.5	-22.6
Other intermediate goods	56.1	50.9	-9.2	552.6	529.0	-4.3
3. Investment goods	391.0	293.5	-24.9	3,789.4	2,920.9	-22.9
Machinery and equipment	218.2	183.0	-16.1	2,034.9	1,764.7	-13.3
Building material	133.8	87.5	-34.6	1,277.2	852.2	-33.3
Transport equipment	38.5	22.8	-40.9	471.9	301.3	-36.1
Other investment goods	0.4	0.2	-44.2	5.3	2.6	-50.5
4. Unclassified imports	1.2	0.2	-83.5	6.4	12.4	92.9
Total imports	1,815.7	1,362.8	-24.9	16,411.8	13,145.0	-19.9
Non-fuel imports	1,507.4	1,139.4	-24.4	13,173.0	11,016.4	-16.4

(a) Provisional

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

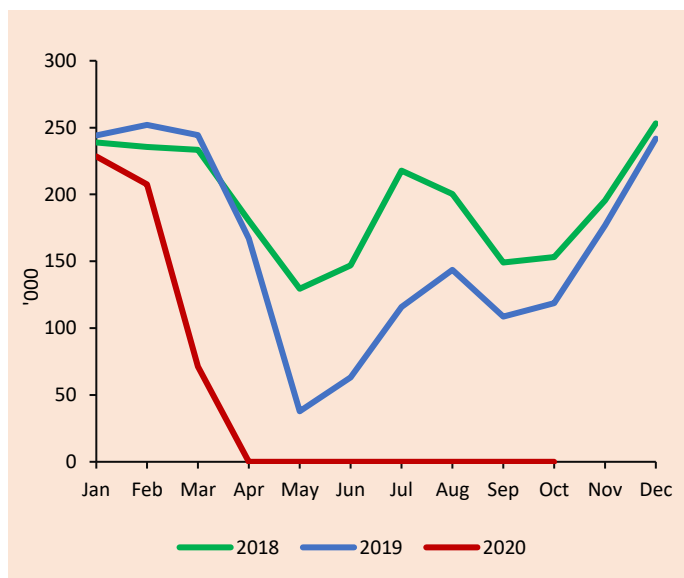
Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

No tourist arrivals were recorded for the seventh consecutive month in October 2020. Total tourist arrivals remained at 507,311 during the ten months ending October 2020, compared to 1,495,055 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 October 2020, thus recording a drop of 66.1 per cent from the corresponding period of 2019.

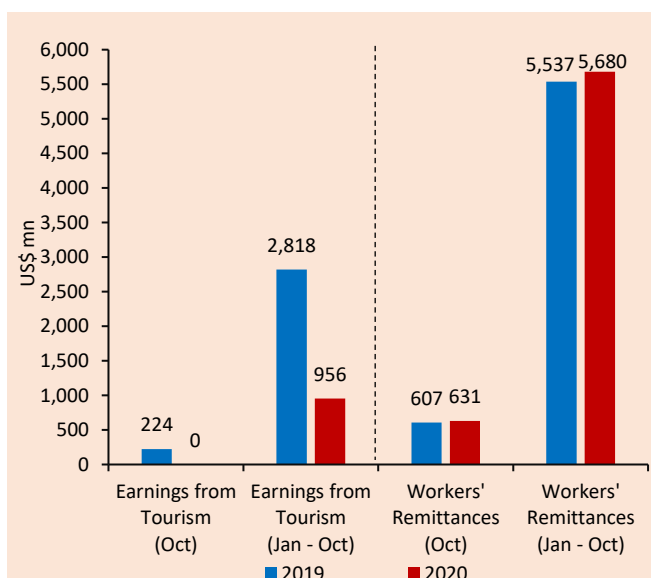
Workers' remittances continued to increase for the fifth consecutive month. Workers' remittances recorded a growth of 3.9 per cent in October 2020, year-on-year, to US dollars 631 million. This increase led the cumulative earnings in workers' remittances to record a growth of 2.6 per cent to US dollars 5,680 million during the period from January to October 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

Foreign investment in the government securities market recorded a marginal net outflow during the month. A net outflow of foreign investment amounting to US dollars 20 million was recorded in the rupee denominated government securities market in October 2020, increasing the cumulative net outflow to US dollars 532 million during the period from January to October 2020. This net outflow in October 2020 was a result of a gross inflow of US dollars 1 million and a gross outflow of

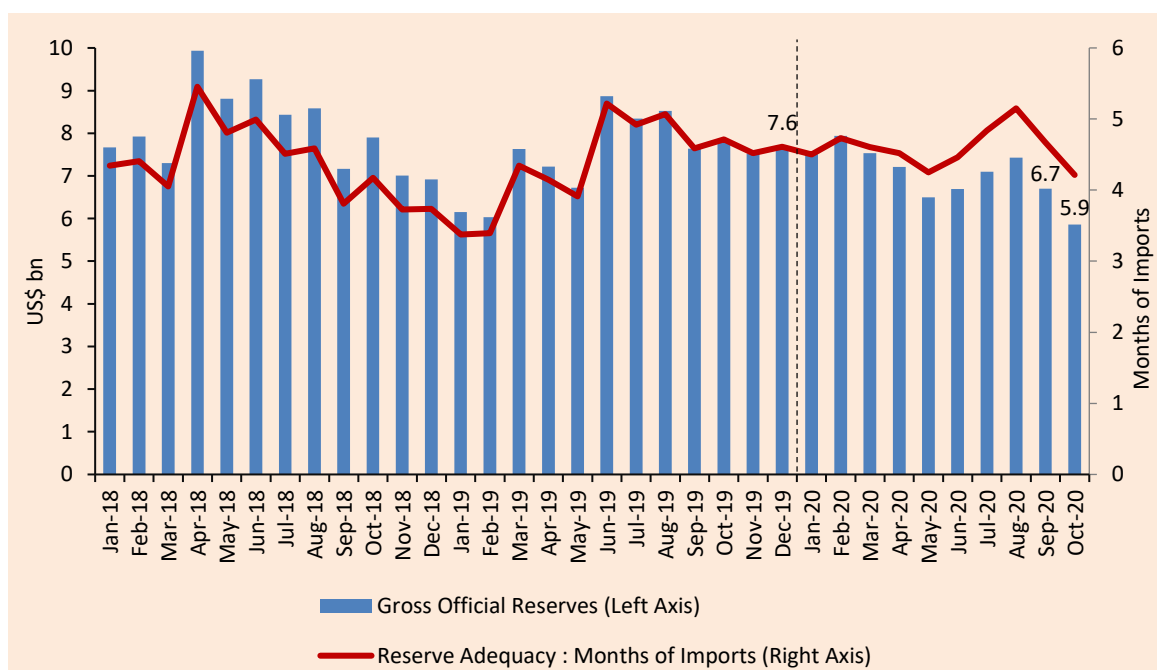
US dollars 21 million. The total outstanding exposure of foreign investment in the rupee denominated government securities market remained relatively small at US dollars 56 million by end October 2020.

The CSE recorded foreign investments, on a net basis, while foreign loans to the Government increased in October 2020. When considering both the primary market and the secondary market, the CSE recorded a net inflow of US dollars 21 million in October 2020. This inflow was a result of a large inflow of US dollars 50 million to the primary market while the secondary market recorded a net outflow of US dollars 29 million during the month. On a cumulative basis, the CSE recorded a net outflow of US dollars 194 million during the ten months ending October 2020. Meanwhile, long term loans to the Government recorded a net inflow of US dollars 185 million in October 2020.

International Reserves

Gross official reserves remained at a sufficient level by end October 2020, despite a major debt repayment by way of settlement of an ISB. The level of gross official reserves amounted to US dollars 5.9 billion with the repayment of the matured ISB of US dollars 1.0 billion in early October 2020. Gross official reserves were equivalent to 4.2 months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 8.6 billion at end October 2020, providing an import cover of 6.2 months.

Figure 10: Gross Official Reserves and Reserve Adequacy

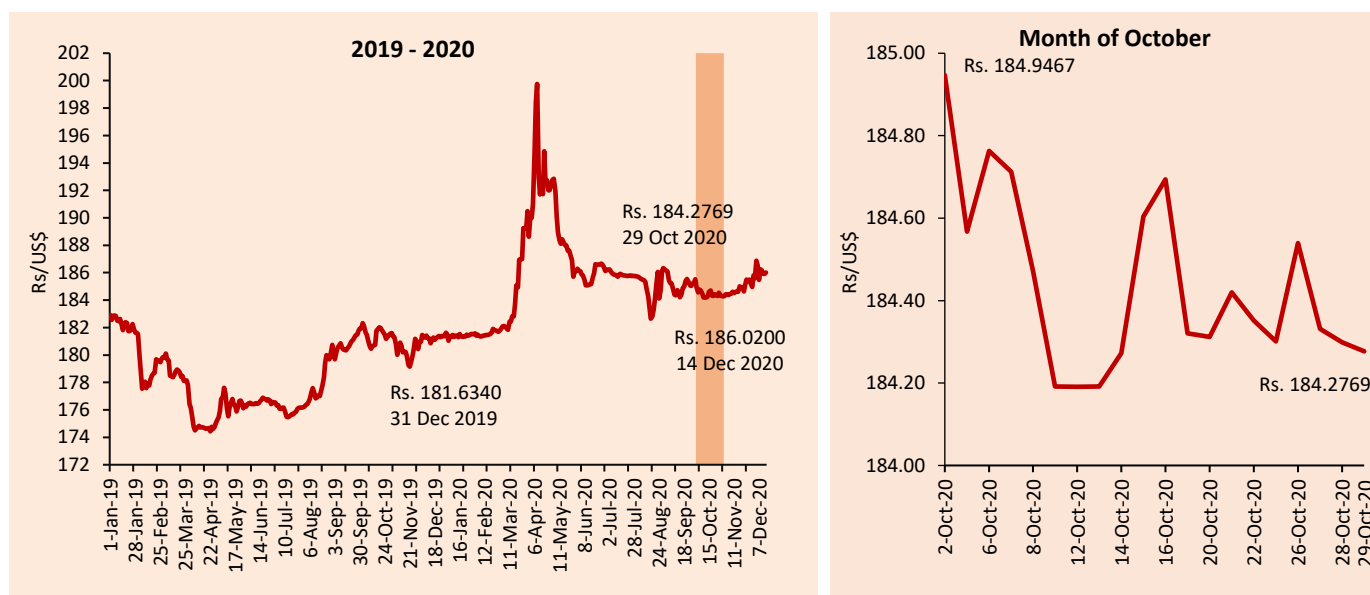


Source: CBSL

Exchange Rate Movements

The Sri Lankan rupee recorded a marginal appreciation of 0.7 per cent during October 2020, despite some volatility demonstrated in the middle of the month. Overall, the rupee recorded a depreciation of 2.4 per cent against the US dollar so far during the year up to 14 December 2020. The Central Bank continued to intervene in the domestic foreign exchange market by purchasing foreign exchange in October 2020 as well. As such, the amount the Central Bank absorbed on a net basis in 2020 up to end November increased to US dollars 305 million. 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 in 2020 up to 14 December.

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	2019	2020 (up to 14 Dec) Depreciation (-)/ Appreciation (+)
US dollar	+0.6%	-2.4%
Euro	+2.6%	-9.8%
Pound sterling	-2.8%	-3.7%
Japanese yen	-1.0%	-6.5%
Australian dollar	+1.3%	-9.2%
Indian rupee	+2.6%	+1.0%

Source: CBSL