

PRESS RELEASE

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 இலங்கை மத்திய வங்கி
 CENTRAL BANK OF SRI LANKA

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External Sector Performance – December 2020

Highlights

	Dec 2020	Jan-Dec 2020	
Trade Deficit	US\$ 562 mn Dec 2019: US\$ 784 mn	US\$ 5,978 mn Jan-Dec 2019: US\$ 7,997 mn	
Merchandise Exports	US\$ 964 mn Dec 2019: US\$ 1,000 mn -3.5% Y-o-Y	US\$ 10,077 mn Jan-Dec 2019: US\$ 11,940 mn -15.6% Y-o-Y	Earnings from Tourism Dec 2020: US\$ 0.7 mn (-99.8% Y-o-Y) Jan-Dec 2020: US\$ 957 mn (-73.5% Y-o-Y)
Merchandise Imports	US\$ 1,527 mn Dec 2019: US\$ 1,784 mn -14.4% Y-o-Y	US\$ 16,055 mn Jan-Dec 2019: US\$ 19,937 mn -19.5% Y-o-Y	Workers' Remittances Dec 2020: US\$ 813 mn (22.2% Y-o-Y) Jan-Dec 2020: US\$ 7,104 mn (5.8% Y-o-Y)
CSE (Primary and Secondary Markets-net) Dec 2020: US\$ -16 mn Jan-Dec 2020: US\$ -225 mn	Government Securities (net) Dec 2020: US\$ -10 mn Jan-Dec 2020: US\$ -553 mn	Gross Official Reserves end Dec 2020: US\$ 5.7 bn (4.2 months of imports)	Exchange Rate (Rs per US\$) end Dec 2019: 181.6340 end Dec 2020: 186.4082

Overview

Merchandise exports recovered in December 2020 from the impact of the second wave of the COVID-19 pandemic in the country, while merchandise imports continued to decline on a year-on-year basis supported by the continuation of restrictions on non-essential imports and comparatively low global oil prices. Overall, the trade deficit contracted significantly by US dollars 2.0 billion in 2020 compared to 2019. Recording the historically highest monthly inflow, workers' remittances continued to support the external sector resilience in December 2020 as well. In the financial account, both foreign investment in the government securities market and the Colombo Stock Exchange (CSE) recorded marginal net outflows in December 2020. At the end of the year, gross official reserves stood at US dollars 5.7 billion. During 2020, the Sri Lankan rupee depreciated by 2.6 per cent in 2020. The exchange rate experienced some volatility in December 2020 as well as during the period thus far in 2021.

Table 1: Summary of External Sector Performance (a)

Category	Dec 2019 US\$ mn	Dec 2020 US\$ mn	Change (%)	Jan-Dec 2019 US\$ mn	Jan-Dec 2020 US\$ mn	Change (%)
Merchandise Exports	1,000	964	-3.5	11,940	10,077	-15.6
Merchandise Imports	1,784	1,527	-14.4	19,937	16,055	-19.5
Trade balance	-784	-562		-7,997	-5,978	
Earnings from tourism	455 (b)	0.7 (c)	-99.8	3,607 (b)	957 (c)	-73.5
Workers' remittances	665	813	22.2	6,717	7,104	5.8
Inflows to the CSE (net) (d)	-5	-16		-35	-225	
Inflows to the Government (gross)	113	98		6,570	2,002	
Treasury bills and bonds (gross)	17	16		596	120	
Long term loans (gross)	96	81		1,573	1,882	
International Sovereign Bonds (gross)	-	-		4,400	-	
Foreign Direct Investment (gross)(e)				793	548	
Overall Balance				377	-2,327	

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 nine months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the BOI and net direct investment to the CSE.

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>

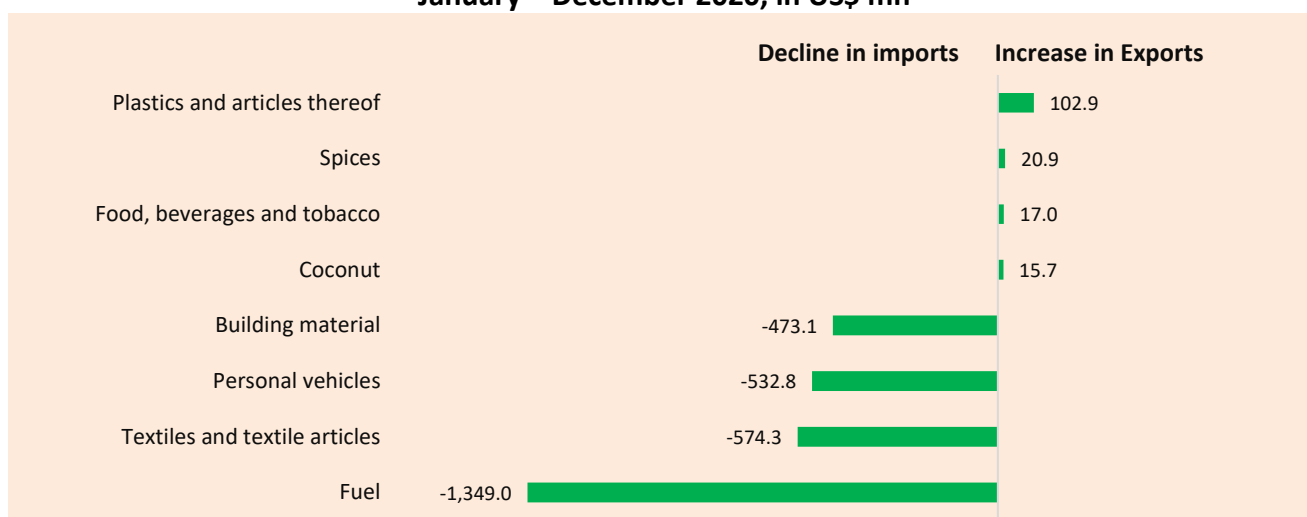
Trade Balance and Terms of Trade

The deficit in the trade account narrowed in December 2020 by US dollars 222 million to US dollars 562 million, from US dollars 784 million recorded in December 2019, due to a larger decline in imports compared to the decline in exports.

Further, the overall deficit in the trade account in 2020 narrowed to US dollars 5,978 million from the deficit of US dollars 7,997 million recorded in 2019. The major contributory factors for this outcome are depicted in Figure 1.

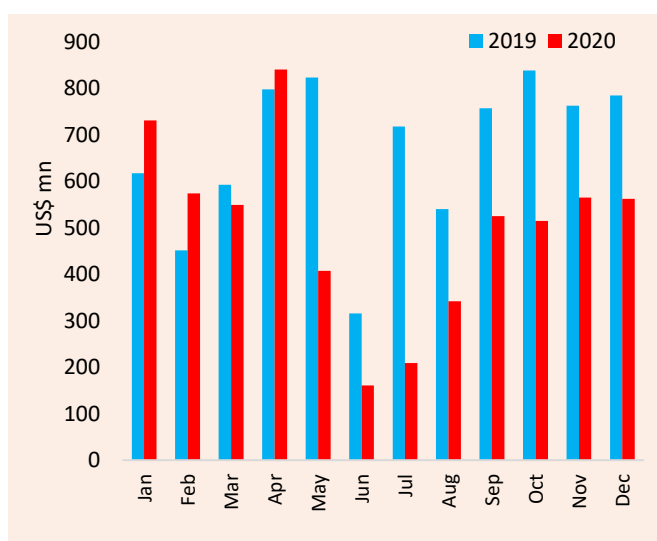
Terms of trade, i.e., the ratio of the price of exports to the price of imports, improved by 3.2 per cent in December 2020, compared to December 2019, with higher export prices and lower import prices.

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



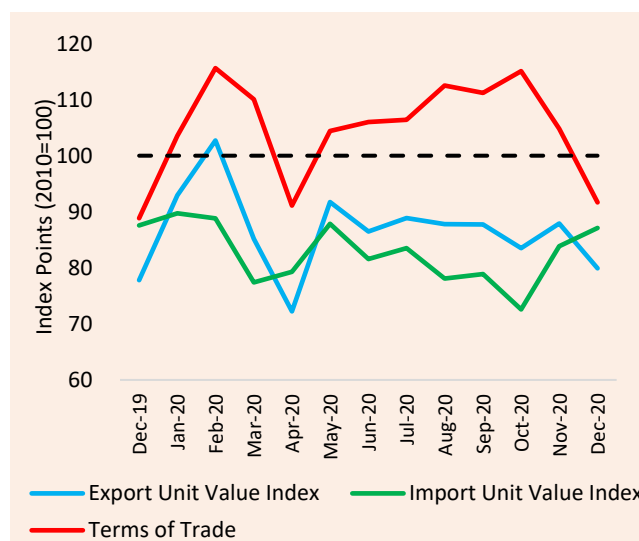
Sources: SLC, CBSL

Figure 2: Monthly Trade Deficit (2019 – 2020)



Sources: SLC, CBSL

Figure 3: Terms of Trade – 2020



Source: CBSL

Performance of Merchandise Exports

Overall exports: Earnings from merchandise exports recovered to a great extent in December 2020 from the setback suffered in the previous two months due to the second wave of the pandemic.

Earnings from exports in December 2020 were recorded at US dollars 964 million with a marginal decline of 3.5 per cent from the US dollars 1,000 million recorded in December 2019. Gradual easing of lockdowns in Sri Lanka and improved demand from export destinations contributed to this outcome. Earnings from exports in the year 2020 amounted to US dollars 10,077 million, recording a decline of 15.6 per cent from the previous year. This decline was a result of disruption to production caused by lockdowns during the first and the second waves of the COVID-19 spread in Sri Lanka, as well as lower global demand and disruptions to global supply chains.

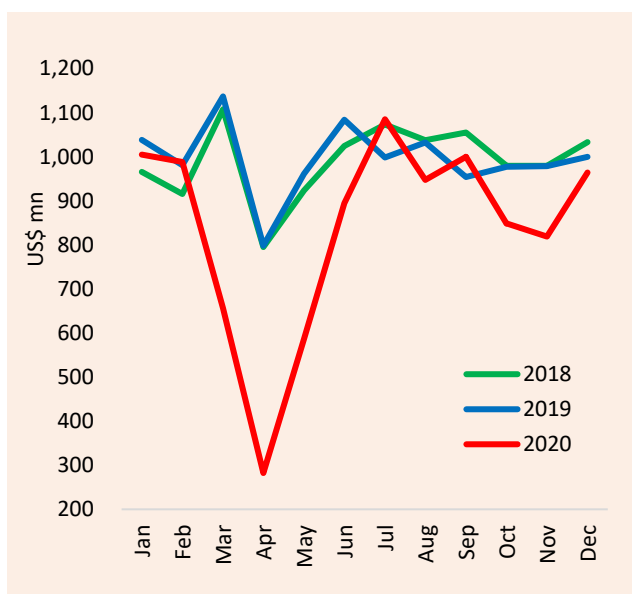
Industrial exports: Earnings from the export of industrial goods declined by 5.4 per cent in December 2020 compared to December 2019, mainly due to the decline in the export of textiles and garments by 6.5 per cent and the decline in the export of petroleum products by 43.6 per cent. The export of garments to the EU increased slightly, while exports to the USA and other destinations declined significantly. Earnings from the export of petroleum products that comprises bunkering and aviation fuel and other petroleum products declined due to the decline in quantities supplied as well as prices. Further, earnings from the export of rubber tyres, gems and jewellery, animal fodder, most of the items under leather, travel goods and footwear and most of the items under base metals and articles (except copper and articles thereof) declined. On the other hand, the export of surgical and other gloves increased significantly. Sizable increases were also recorded in the export of food, beverages and tobacco (mainly coconut milk and cream and manufactured tobacco, among others); machinery and mechanical appliances (mainly electronic equipment and industrial machinery); chemical products (mainly activated carbon); ceramic products (mainly tableware, kitchenware, wall-tiles and ornaments); and certain wood and paper products.

Agricultural exports: Export earnings from agricultural goods increased by 4.1 per cent in December 2020 compared to December 2019, due to the increase in the export of spices (pepper, cinnamon, nutmeg, mace, cloves, etc.), tea, coconut kernel and non-kernel products and natural rubber. The increase in earnings from tea exports was mainly due to the increase in the unit price as the increase in volume exported was marginal. Agricultural products that recorded a decline in export earnings in December 2020 compared to December 2019 were seafood, minor agricultural products (fruits, arecanuts, betel leaves, etc.), unmanufactured tobacco and vegetables.

Mineral exports: Mineral exports increased in December 2020 compared to December 2019, due to the increase in earths and stone and ores slag and ash (mainly titanium and zirconium ores).

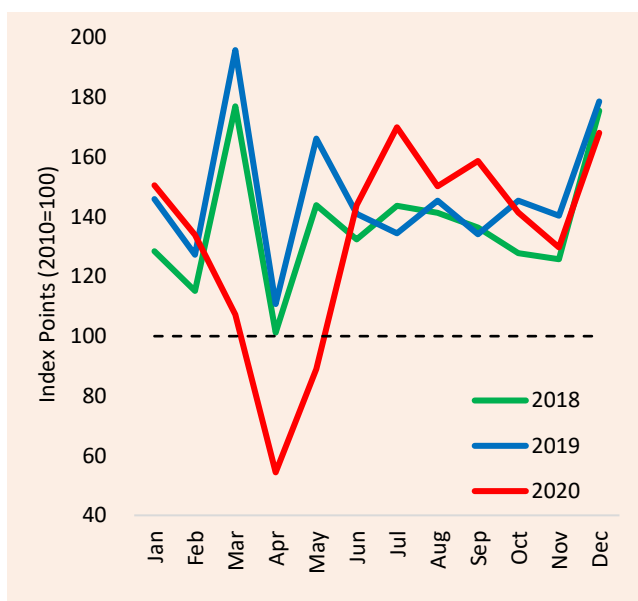
Export indices: The export volume index declined by 6.0 per cent while the unit value index increased by 2.7 per cent on a year-on-year basis in December 2020. This indicates that the decline in export earnings was due to lower export volumes.

Figure 4: Monthly Export Performance



Sources: SLC, CBSL

Figure 5: Monthly Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	December 2019 (US\$ mn)	December 2020 (US\$ mn)	Change (%)	Jan-Dec 2019 (US\$ mn)	Jan-Dec 2020 (US\$ mn)	Change (%)
1. Industrial exports	798.9	755.5	-5.4	9,426.3	7,701.7	-18.3
Food, beverages and tobacco	36.1	41.4	14.5	447.0	464.0	3.8
Animal fodder	11.6	7.8	-32.5	129.0	102.9	-20.2
Textiles and garments	483.2	451.8	-6.5	5,596.5	4,423.1	-21.0
o/w Garments	451.9	412.5	-8.7	5,205.5	3,939.2	-24.3
Textiles	22.8	25.5	11.8	284.3	259.5	-8.7
Other made up textile articles	8.6	13.8	61.4	106.7	224.4	110.3
Rubber products	73.0	74.9	2.6	866.1	786.1	-9.2
Gems, diamonds and jewellery	24.3	18.7	-22.9	305.7	211.2	-30.9
Machinery and mechanical appliances	29.7	39.6	33.4	400.0	337.5	-15.6
Transport equipment	6.2	6.9	11.0	145.9	71.4	-51.0
Petroleum products	55.3	31.2	-43.6	521.1	373.6	-28.3
Chemical products	12.8	16.7	30.2	176.3	172.7	-2.0
Wood and paper products	9.3	9.7	4.9	129.4	99.3	-23.3
Printing industry products	3.7	4.5	19.8	48.3	47.9	-0.8
Leather, travel goods and footwear	7.5	4.4	-40.8	102.9	53.9	-47.6
Plastics and articles thereof	5.8	6.0	4.5	73.5	176.3	140.0
Base metals and articles	13.4	12.1	-10.0	176.5	110.9	-37.2
Ceramic products	2.3	3.2	34.8	30.1	24.0	-20.2
Other industrial exports	24.6	26.7	8.5	278.1	247.0	-11.2
2. Agricultural exports	195.4	203.3	4.1	2,461.9	2,336.2	-5.1
Tea	105.8	113.0	6.8	1,346.4	1,240.9	-7.8
Rubber	1.8	4.6	155.1	24.2	30.1	24.4
Coconut	21.8	26.8	22.6	329.5	345.2	4.8
Spices	21.1	33.1	56.8	312.5	333.5	6.7
Vegetables	2.8	1.7	-39.9	32.0	36.6	14.3
Unmanufactured tobacco	3.6	2.5	-30.8	34.7	25.5	-26.6
Minor agricultural products	14.6	7.3	-49.7	120.0	134.7	12.2
Seafood	23.9	14.4	-39.7	262.5	189.8	-27.7
3. Mineral exports	3.3	4.6	39.8	33.9	25.1	-25.9
4. Unclassified exports	2.4	1.0	-57.5	17.9	14.1	-21.4
Total exports	999.9	964.5	-3.5	11,940.0	10,077.1	-15.6

(a) Provisional

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

Performance of Merchandise Imports

Overall imports: Merchandise imports declined in December 2020 compared to 2019, continuing the year-on-year declining trend observed since March 2020, mainly due to relatively low crude oil prices and restrictions imposed by the Government on the importation of non-essential goods.

Expenditure on merchandise imports declined by 14.4 per cent to US dollars 1,527 million in December 2020 compared to December 2019. Declines recorded in all three major categories of imports, namely, consumer, intermediate, and investment goods, contributed to this outcome. Total expenditure on imports amounted to US dollars 16,055 million in 2020, recording a 19.5 per cent reduction from 2019.

Consumer goods: Expenditure on the importation of consumer goods in December 2020 declined by 16.2 per cent compared to December 2019, mainly as a result of the decline in imports of vehicles for personal use. Expenditure on non-food consumer goods, that includes vehicles for personal use, declined by 30.1 per cent. A general decline of import expenditure was recorded in many subcategories under non-food consumer goods in December 2020, such as clothing and accessories, cosmetics and toiletries, printed materials and stationery, etc. On the other hand, mobile phones recorded a sizable increase along with many types of household appliances. Consumer goods that are food and beverages recorded an increase of 6.8 per cent, mainly due to the increase in import of coconut oil, sugar, milk powder and dried sprats. Import expenditure on most of the items classified under other food types, such as vegetables, fruits, fresh fish, spices, and beverages were lower than December 2019.

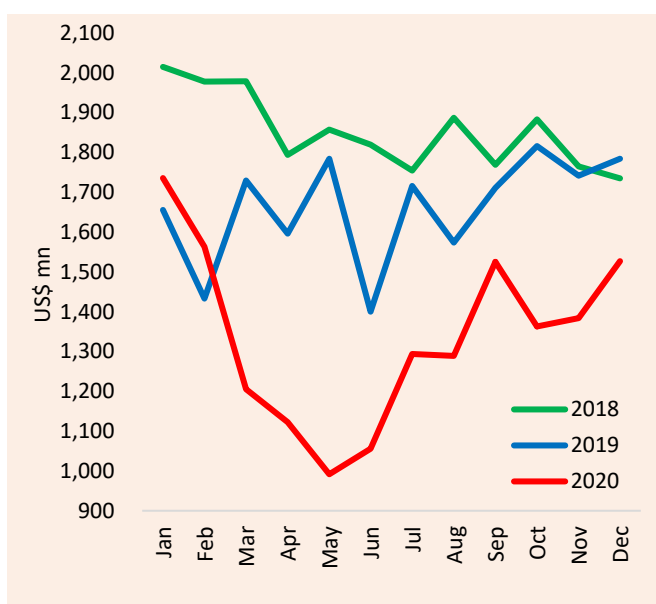
Intermediate goods: Expenditure on the importation of intermediate goods declined by 9.6 per cent in December 2020 compared to December 2019, driven by a 29.5 per cent decline in expenditure on fuel imports. The average import price of crude oil in December 2020 was US dollars 51.89 per barrel, in comparison to US dollars 71.78 per barrel in December 2019. Other intermediate good categories that showed a marked decline include textiles and textile articles, diamonds and precious metals, base metals (such as iron and steel and aluminium articles), palm oil, etc. Intermediate good imports that recorded notable increases included fertiliser and wheat (due to higher volumes), synthetic rubber, certain chemical products and animal fodder.

Investment goods: Imports of investment goods declined by 23.6 per cent in December 2020 compared to December 2019, with declines in all three subcategories, namely, machinery and equipment, building material and transport equipment. Declines in import expenditure were

particularly apparent in articles of iron and steel, ceramic products, cement, some engineering equipment (such as cranes, lifts and skip hoists, automatic regulating instruments), medical and laboratory equipment and commercial purpose vehicles. However, notable increases in import expenditure were observed in relation to computers, agricultural machinery, tractors, etc.

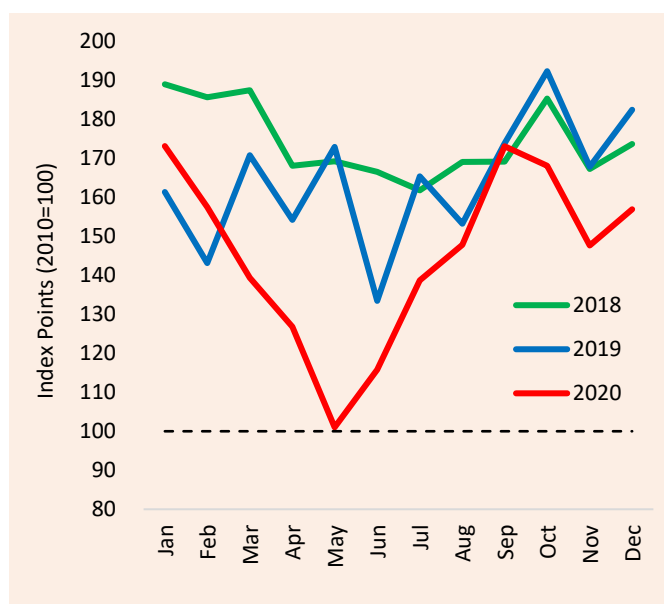
Import indices: The import volume index and the unit value index declined by 14.0 per cent and 0.5 per cent, respectively, on a year-on-year basis in December 2020. This indicates that the decline in import expenditure was caused by the combined impact of lower import volumes and prices.

Figure 6: Monthly Import Performance



Sources: SLC, CBSL

Figure 7: Monthly Import Volume Index



Source: CBSL

Table 3: Expenditure on Merchandise Imports (a)

Category	December 2019 (US\$ mn)	December 2020 (US\$ mn)	Change (%)	Jan-Dec 2019 (US\$ mn)	Jan-Dec 2020 (US\$ mn)	Change (%)
1. Consumer goods	390.9	327.7	-16.2	3,956.5	3,401.7	-14.0
Food and beverages	148.0	158.1	6.8	1,426.9	1,554.4	8.9
Cereals and milling industry products	4.0	3.4	-13.9	36.1	33.6	-7.1
Dairy products	29.9	31.0	3.8	311.9	333.8	7.0
Vegetables (b)	40.5	39.6	-2.3	310.0	352.9	13.8
Seafood	15.3	13.0	-15.1	214.6	188.6	-12.1
Sugar and confectionery	21.3	29.8	39.9	201.2	277.1	37.7
Spices	13.3	11.5	-12.9	115.4	126.9	9.9
Other food and beverages	23.8	29.7	24.8	237.7	241.6	1.6
Non-food consumer goods	242.8	169.7	-30.1	2,529.6	1,847.3	-27.0
Personal vehicles	83.9	0.5	-99.5	815.7	282.9	-65.3
Medical and pharmaceuticals	54.7	55.0	0.6	552.6	595.5	7.8
Home appliances	19.2	22.4	17.1	206.6	174.2	-15.7
Clothing and accessories	24.0	18.3	-23.8	275.1	200.7	-27.1
Telecommunication devices	21.6	37.3	72.6	247.2	268.4	8.6
Household and furniture items	16.7	17.7	6.1	171.9	146.9	-14.5
Other non-food consumables	22.7	18.4	-18.8	260.5	178.7	-31.4
2. Intermediate goods	956.4	865.0	-9.6	11,369.6	9,076.5	-20.2
Fuel	333.2	235.1	-29.5	3,891.6	2,542.6	-34.7
o/w Crude oil	50.2	38.1	-24.1	970.7	583.0	-39.9
Refined petroleum	259.0	162.9	-37.1	2,706.4	1,742.2	-35.6
Coal	24.0	34.1	41.8	214.6	217.3	1.3
Diamonds, precious stones and metals	23.9	11.1	-53.4	201.4	117.2	-41.8
Textiles and textile articles	248.3	234.8	-5.4	2,909.4	2,335.1	-19.7
Paper and paperboard and articles thereof	37.6	36.6	-2.6	457.3	383.1	-16.2
Agricultural inputs	19.3	22.5	16.4	187.9	200.8	6.9
Wheat and maize	20.1	41.9	108.9	346.4	384.4	11.0
Base metals	50.7	33.7	-33.6	562.8	460.3	-18.2
Plastic and articles thereof	54.2	52.7	-2.8	612.9	540.2	-11.9
Chemical products	67.1	82.1	22.5	831.5	831.5	0.0
Fertiliser	17.4	30.4	75.0	221.4	258.9	16.9
Rubber and articles thereof	18.2	20.3	11.5	238.9	218.7	-8.5
Mineral products	12.2	13.3	8.6	243.3	168.9	-30.6
Other intermediate goods	54.3	50.5	-7.0	664.8	634.9	-4.5
3. Investment goods	435.5	332.8	-23.6	4,602.6	3,563.2	-22.6
Machinery and equipment	238.5	211.2	-11.5	2,489.7	2,176.1	-12.6
Building material	117.0	104.7	-10.5	1,508.7	1,035.6	-31.4
Transport equipment	78.2	16.6	-78.8	596.6	348.3	-41.6
Other investment goods	1.7	0.3	-83.5	7.6	3.2	-57.8
4. Unclassified imports	1.4	1.1	-22.8	8.3	14.0	68.8
Total imports	1,784.2	1,526.6	-14.4	19,937.1	16,055.4	-19.5
o/w Non-fuel imports	1,451.0	1,291.6	-11.0	16,045.4	13,512.8	-15.8

(a) Provisional

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

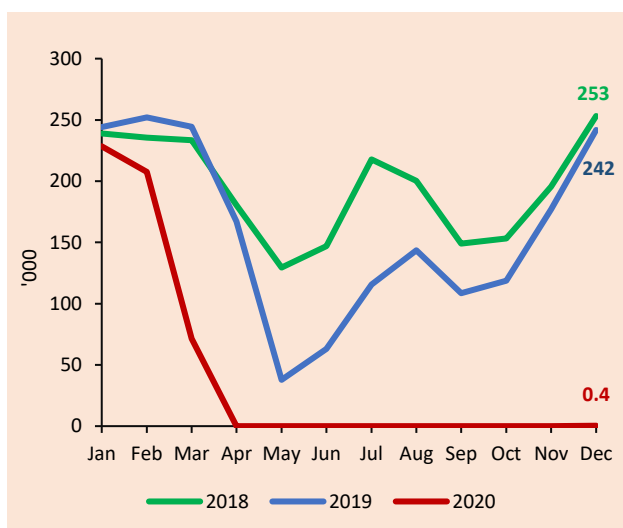
Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

With the launch of the pilot project to resume tourism, a few tourist arrivals were recorded in December 2020. Accordingly, 393 tourists from Ukraine visited Sri Lanka in December 2020. Consequently, total tourist arrivals were recorded at 507,704 in 2020, compared to 1,913,702 arrivals in 2019. Accordingly, cumulative earnings from tourism, which are estimated based on tourist arrivals, amounted to US dollars 957 million in 2020.

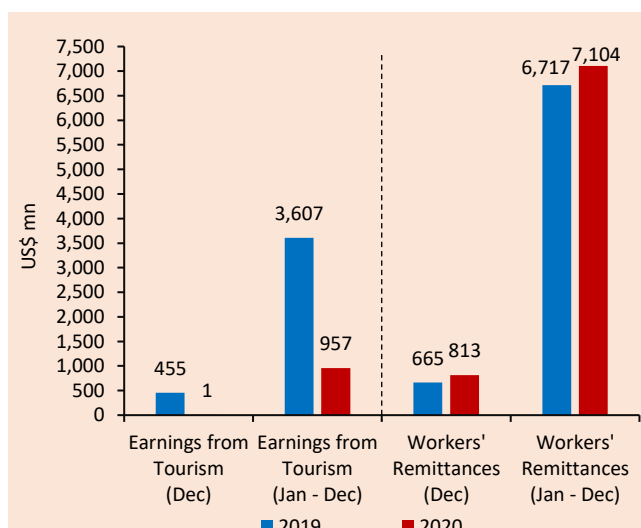
Workers' remittances increased to a record high in December 2020. Remittances grew by 22.2 per cent in December 2020, year-on-year, to US dollars 813 million. The improvement observed from June 2020 helped workers' remittances to record a year-on-year growth of 5.8 per cent in 2020, to reach US dollars 7,104 million during the year.

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 10 million was recorded in the rupee denominated government securities market in December 2020, increasing the cumulative net outflow to US dollars 553 million during 2020. The total outstanding exposure of foreign investment in the rupee denominated government securities market remained low at US dollars 37 million by end December 2020.

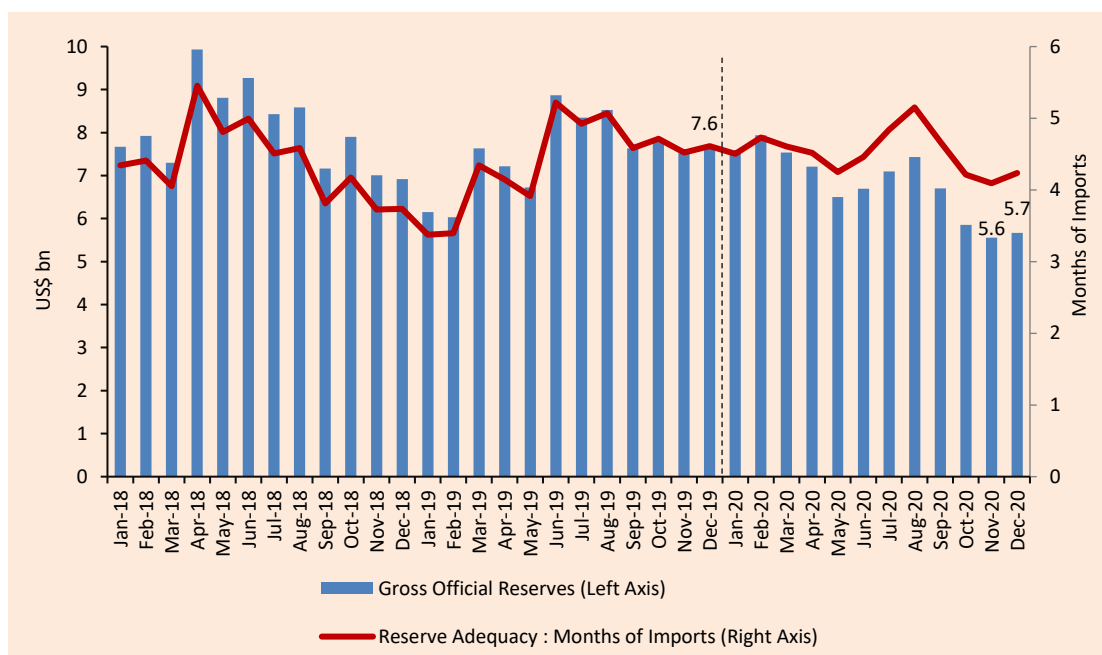
There were net outflows of US dollars 16 million from the secondary market of the CSE in December 2020. On a cumulative basis, the CSE recorded a net outflow of US dollars 225 million, from both primary and secondary markets, during 2020.

Meanwhile, long term loans to the Government recorded a net outflow of US dollars 9 million in December 2020. Gross inflows to the Government amounted to US dollars 2,002 million in 2020 compared to US dollars 6,570 million in 2019.

International Reserves

Gross official reserves at end December 2020 amounted to US dollars 5.7 billion. This level was 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 8.5 billion at end December 2020, providing an import cover of 6.4 months.

Figure 10: Gross Official Reserves and Reserve Adequacy

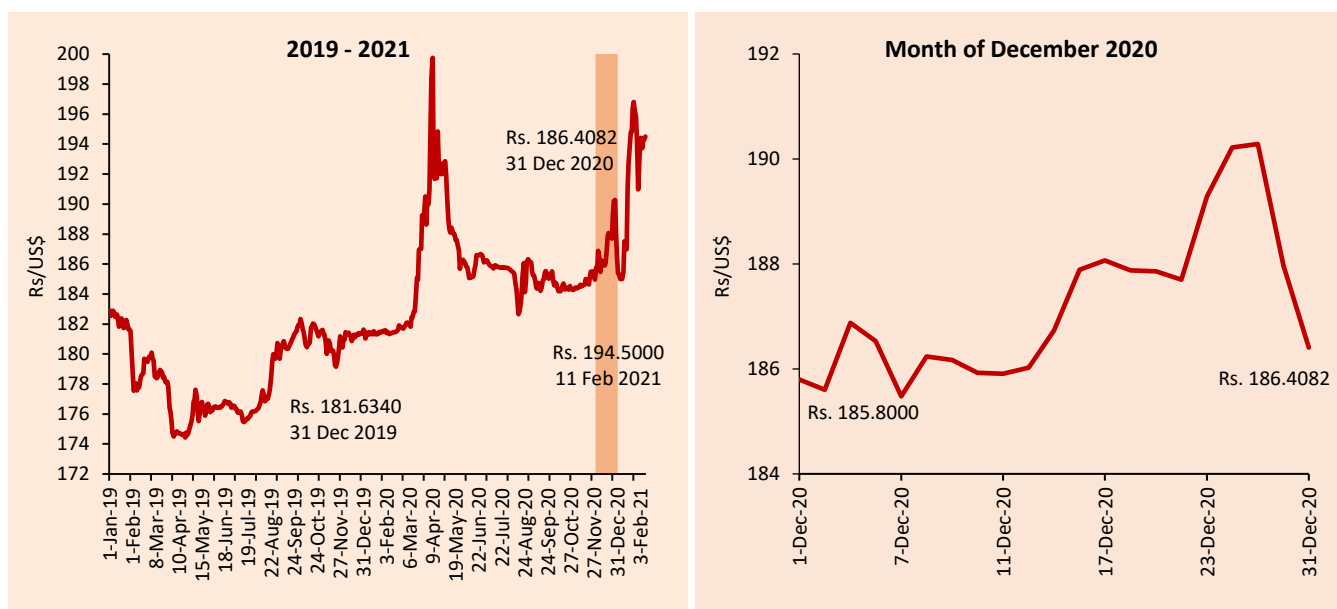


Source: CBSL

Exchange Rate Movements

A notable depreciation pressure on the Sri Lankan rupee was observed during December 2020. Even amidst such intermittent volatile periods, particularly driven by speculative market behaviour, the overall depreciation of the rupee was limited to 2.6 per cent against the US dollar in 2020. The Central Bank was able to absorb US dollars 283 million, on a net basis, from the domestic foreign exchange market in 2020. The depreciation pressure re-emerged in January 2021, but with temporary regulatory restrictions being adopted in the domestic foreign exchange market to curtail speculation, the rupee stabilised again in the latter part of January 2021. Meanwhile, reflecting cross-currency movements, the Sri Lankan rupee depreciated against the euro, the pound sterling, the Japanese yen, the Australian dollar and the Indian rupee in 2021 up to 11 February 2021.

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



Source: CBSL

Source: CBSL

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

Currency	2019	2020	2021 (up to 11 Feb) Depreciation (-)/ Appreciation (+)
US dollar	+0.6%	-2.6%	-4.2%
Euro	+2.6%	-11.2%	-2.7%
Pound sterling	-2.8%	-6.2%	-5.4%
Japanese yen	-1.0%	-7.5%	-2.8%
Australian dollar	+1.3%	-11.4%	-4.3%
Indian rupee	+2.6%	0.0%	-4.6%

Source: CBSL