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## External Sector Performance – February 2021

### Overview

The increase in exports to the pre-pandemic levels, the notable increase in workers' remittances and the relative stability in the domestic foreign exchange market supported Sri Lanka's external sector in February 2021. The trade deficit in February 2021 broadly remained unchanged at the level reported a year ago. In the financial account, both foreign investment in the government securities market and the Colombo Stock Exchange (CSE) recorded net outflows in February 2021. The SAARCFINANCE swap facility of US dollars 400 million obtained from the Reserve Bank of India in July 2020 was repaid in February 2021 upon maturity. Net inflows to the domestic foreign exchange market eased the pressure on the exchange rate during the month and the regulatory measures enabled the Central Bank to absorb foreign exchange on a net basis, to build up gross official reserves.

Table 1: Summary of External Sector Performance (a)

Category	Feb 2020 US\$ mn	Feb 2021 US\$ mn	Change (%)	Jan-Feb 2020 US\$ mn	Jan-Feb 2021 US\$ mn	Change (%)
Merchandise Exports	989	952	-3.7	1,993	1,888	-5.3
Merchandise Imports	1,562	1,524	-2.5	3,298	3,115	-5.5
Trade balance	-574	-572		-1,304	-1,227	
Earnings from tourism	279 (b)	5 (c)	-98.4	586 (b)	7 (c)	-98.8
Workers' remittances	527	580	9.9	1,108	1,255	13.2
Inflows to the CSE (net) (d)	-6	-26		-22	-70	
Inflows to the Government (gross)	90	93		232	148	
Treasury bills and bonds (gross)	20	0.01		79	3	
Long term loans (gross)	70	93		153	145	
International Sovereign Bonds (gross)	-	-		-	-	
Overall Balance				310	-774	

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 2020.
- (c) This provisional estimate may be revised once SLTDA releases its survey results for 2021.
- (d) Include primary and secondary transactions.

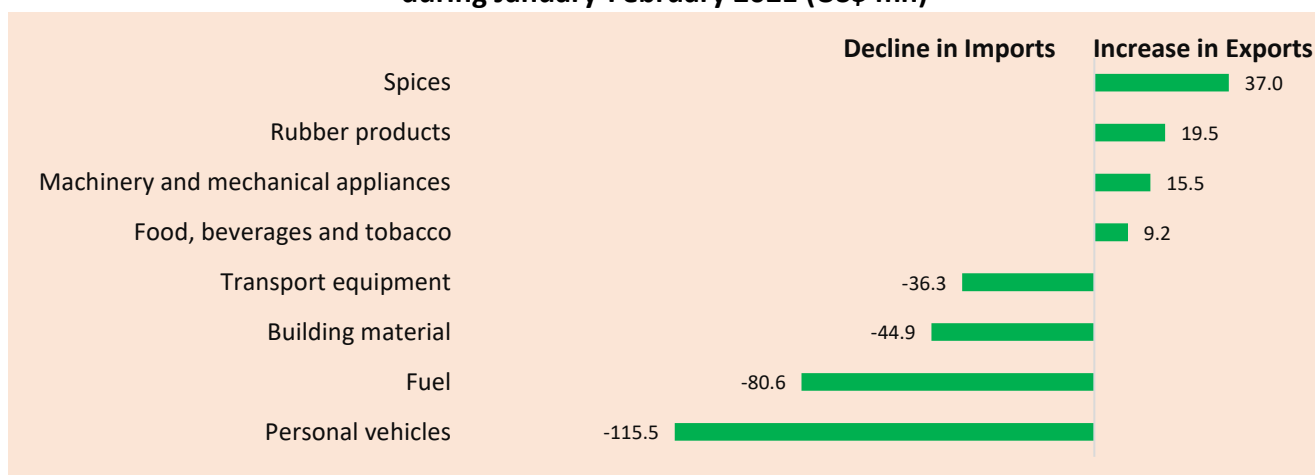
The CBSL publishes a 'Monthly Trade Bulletin', with further information on merchandise trade performance, which can be viewed at Central Bank of Sri Lanka's website under Statistics > Economic Indicators > Monthly Trade Bulletin.  
<https://www.cbsl.gov.lk/en/monthly-trade-bulletin>

## Trade Balance and Terms of Trade

**Trade Balance:** The deficit in the trade account in February 2021 amounted to US dollars 572 million and broadly remained unchanged, compared to the deficit recorded in February 2020. Both exports and imports were slightly lower in February 2021, compared to February 2020. Meanwhile, the cumulative deficit in the trade account during January - February 2021 narrowed to US dollars 1,227 million from US dollars 1,304 million recorded over the same period in 2020. The major contributory factors for the decline in the cumulative deficit are given in Figure 1.

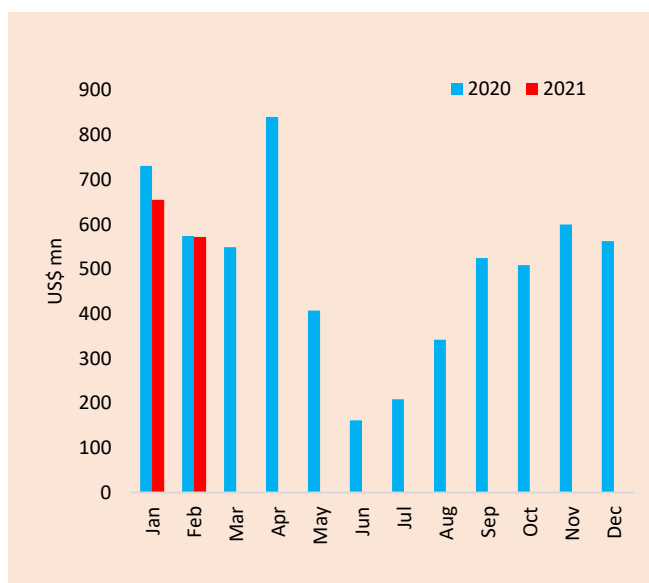
**Terms of Trade:** Terms of trade, i.e., the ratio of the price of exports to the price of imports, deteriorated by 3.5 per cent in February 2021, with lower export prices and higher import prices, compared to February 2020.

**Figure 1: Major Contributory Factors for the y-o-y decline in the Trade Deficit during January-February 2021 (US\$ mn)**



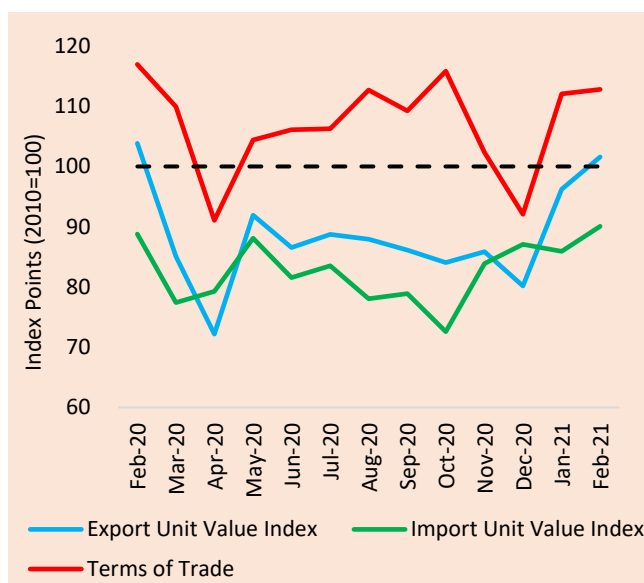
Sources: SLC, CBSL

**Figure 2: Monthly Trade Deficit (2020 – 2021)**



Sources: SLC, CBSL

**Figure 3: Terms of Trade (2020 – 2021)**



Source: CBSL

## Performance of Merchandise Exports

**Overall exports:** Earnings from merchandise exports in February 2021 declined by 3.7 per cent to US dollars 952 million, compared to February 2020. Export earnings exhibited a recovery towards pre-pandemic levels since the peak of the second wave of COVID-19 spread in Sri Lanka, reaching levels close to those recorded in the same month of 2020 (US dollars 989 million) and 2019 (US dollars 981 million).

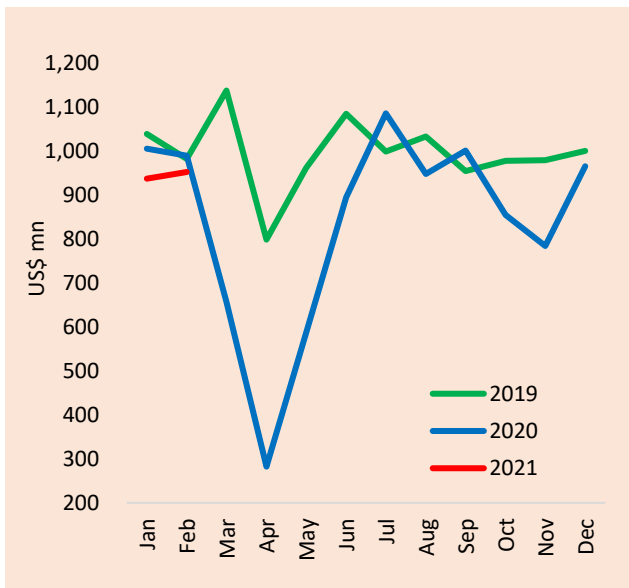
**Industrial exports:** Earnings from the export of industrial goods declined by 6.3 per cent in February 2021, compared to a year ago, mainly due to the decline in earnings from petroleum product exports by 60.8 per cent (y-o-y) and textiles and garments by 5.3 per cent (y-o-y). Earnings from the export of petroleum products declined because of the significant reduction in volumes of aviation fuel and bunkering fuel supplied due to lower aircraft and ship arrivals in the country, as well as the reduction in prices for these export products. Earnings from garment exports to the EU increased, while exports to the USA and other destinations declined. Earnings from a number of smaller export segments declined, while increases were recorded under rubber products (due to an increase in export of surgical and other gloves and rubber tyres), machinery and mechanical appliances, transport equipment, chemical products (mainly activated carbon), plastics and articles thereof (mainly plastic sacks and bags and vinyl polymers), and ceramic products (mainly tableware and kitchenware).

**Agricultural exports:** Export earnings from agricultural goods increased by 5.9 per cent in February 2021, compared to a year ago, mainly contributed by spices, coconut and tea. Among spices, earnings from pepper, cinnamon, nutmeg and mace were supported by both price and volume increases while earnings from cloves also increased with volume increases. Increased earnings from tea exports were mainly due to price increases, while volumes registered a decline. Earnings from coconut exports increased mainly through the export of coconut fibres. Export earnings from minor agricultural products, such as edible nuts and seafood, declined significantly.

**Mineral exports:** Mineral exports in February 2021 were higher than that of February 2020, mainly due to the increase in exportation of items, such as titanium and zirconium ores, slag, graphite, and graphite powder.

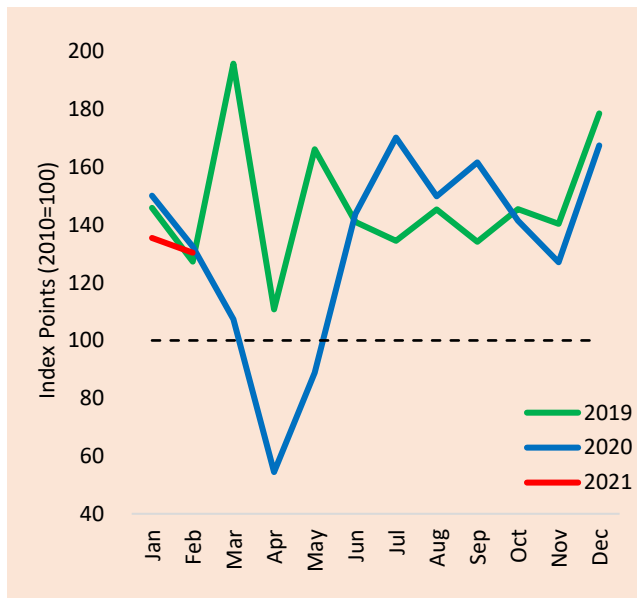
**Export indices:** The export volume index and the unit value index declined by 1.6 per cent and 2.2 per cent, respectively, on a year-on-year basis, in February 2021. This indicates that the decline in export earnings were due to the combined impact of lower export volumes and lower prices.

**Figure 4: Monthly Export Performance**



Sources: SLC, CBSL

**Figure 5: Monthly Export Volume Index**



Source: CBSL

**Table 2: Earnings from Merchandise Exports (a)**

Category	February 2020 (US\$ mn)	February 2021 (US\$ mn)	Change (%)	Jan-Feb 2020 (US\$ mn)	Jan-Feb 2021 (US\$ mn)	Change (%)
<b>1. Industrial exports</b>	<b>790.1</b>	<b>740.3</b>	<b>-6.3</b>	<b>1,602.7</b>	<b>1,472.6</b>	<b>-8.1</b>
Food, beverages and tobacco	36.6	41.7	13.7	72.1	81.4	12.8
Animal fodder	11.0	8.6	-21.9	19.6	20.5	4.5
Textiles and garments	468.1	443.3	-5.3	942.2	866.3	-8.1
o/w Garments	433.7	408.4	-5.8	869.8	793.9	-8.7
Textiles	25.1	22.8	-9.3	52.4	47.4	-9.4
Other made up textile articles	9.3	12.1	30.7	20.1	25.0	24.8
Rubber products	71.5	81.0	13.2	141.7	161.2	13.7
Gems, diamonds and jewellery	21.4	19.7	-8.2	46.1	43.1	-6.7
Machinery and mechanical appliances	34.8	39.6	13.9	65.3	80.7	23.7
Transport equipment	6.9	9.0	30.0	14.1	15.8	11.9
Petroleum products	57.8	22.7	-60.8	140.6	57.1	-59.4
Chemical products	12.9	15.3	18.3	28.1	32.4	15.4
Wood and paper products	11.2	9.9	-11.9	21.2	18.9	-11.0
Printing industry products	3.0	2.8	-5.9	7.7	3.7	-52.7
Leather, travel goods and footwear	7.3	4.5	-39.2	12.9	7.9	-38.4
Plastics and articles thereof	6.0	6.6	9.3	11.5	11.8	2.5
Base metals and articles	12.1	9.0	-25.6	24.8	19.1	-23.0
Ceramic products	2.6	2.9	9.5	4.8	5.6	18.3
Other industrial exports	26.6	23.9	-10.3	49.7	47.0	-5.5
<b>2. Agricultural exports</b>	<b>195.1</b>	<b>206.5</b>	<b>5.9</b>	<b>383.8</b>	<b>406.5</b>	<b>5.9</b>
Tea	107.8	112.5	4.4	207.5	213.5	2.9
Rubber	3.1	2.7	-12.9	5.8	6.7	14.1
Coconut	26.2	30.9	18.1	50.7	55.1	8.6
Spices	18.7	33.1	77.6	38.1	75.2	97.1
Vegetables	2.4	1.5	-35.4	5.0	3.2	-36.4
Unmanufactured tobacco	1.7	2.4	39.8	3.4	4.6	37.4
Minor agricultural products	14.7	9.2	-37.1	29.0	17.3	-40.4
Seafood	20.6	14.1	-31.6	44.2	31.0	-30.0
<b>3. Mineral exports</b>	<b>1.8</b>	<b>3.6</b>	<b>98.5</b>	<b>3.9</b>	<b>7.1</b>	<b>84.0</b>
<b>4. Unclassified exports</b>	<b>1.5</b>	<b>1.3</b>	<b>-15.0</b>	<b>3.0</b>	<b>2.2</b>	<b>-26.7</b>
<b>Total exports</b>	<b>988.5</b>	<b>951.7</b>	<b>-3.7</b>	<b>1,993.4</b>	<b>1,888.4</b>	<b>-5.3</b>

(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:** Expenditure on merchandise imports was 2.5 per cent lower in February 2021 at US dollars 1,524 million, compared to February 2020. The increase in expenditure on intermediate goods, and machinery and equipment categorised under investment goods contributed to the pick up in import expenditure. However, restrictions on the importation of certain non-essential goods continued to restrain import expenditure on non-food consumer goods, and transport equipment and building material that are categorised under investment goods.

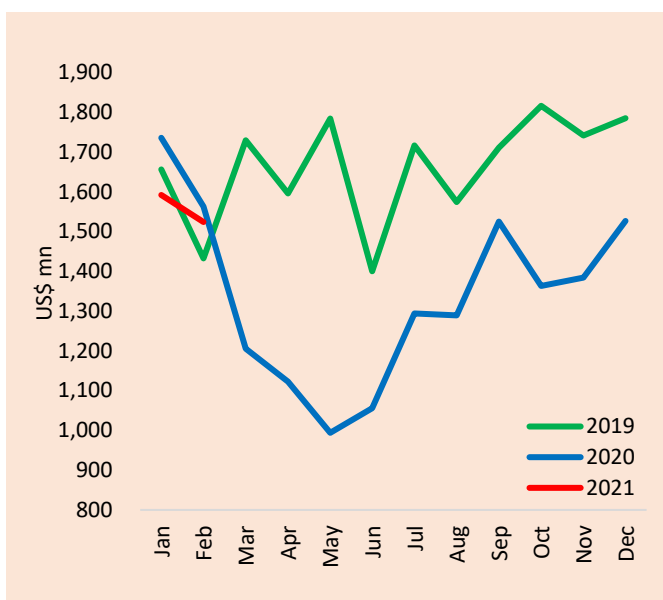
**Consumer goods:** Expenditure on the importation of consumer goods declined by 16.7 per cent in February 2021, compared to February 2020, with a 3.0 per cent reduction in food and beverages and a 26.4 per cent reduction in non-food consumer goods. The year-on-year decline in the food and beverages import bill was driven by the decline in expenditure on spices (mainly chillies), beverages (mainly alcoholic beverages), vegetables (potatoes, gram, B onions, peas etc), among others. However, expenditure on oils and fats in February 2021 remained high, compared to February 2020, mainly due to the increase in expenditure on coconut oil imports, possibly impacted by the reduction of the Special Commodity Levy in 2020 since prices in the international market increased year-on-year. Expenditure on the importation of milk powder and sugar also increased to some extent. The decline in imports of non-food consumer goods was driven by the decline in import of vehicles for personal use, while some non-food consumer goods, such as mobile phones, recorded a significant increase. The import expenditure on medical and pharmaceuticals for February 2021 included US dollars 2.63 million incurred on COVID-19 vaccines.

**Intermediate goods:** Expenditure on the importation of intermediate goods increased by 3.8 per cent in February 2021, compared to a year ago. Expenditure on fuel, the largest import under this category, recorded a decline, while import expenditure on many other intermediate goods increased, particularly textiles and textile articles; wheat (mainly by volume imported); chemical products; plastic and articles thereof; and rubber and articles thereof. Expenditure on fuel declined by 23.5 per cent on a year-on-year basis, with declines in expenditure on crude oil, refined petroleum as well as coal, mainly due to lower volumes imported, compared to February 2020. This decline reflects the base effect, as volumes imported in February 2020 were high. The average import price of crude oil increased slightly to US dollars 64.07 per barrel in February 2021, from US dollars 63.68 per barrel in February 2020. However, the average import price of refined petroleum products declined slightly.

**Investment goods:** Import expenditure on investment goods declined by 4.7 per cent in February 2021, compared to February 2020. Expenditure on building material and transport equipment recorded a year-on-year decline, while expenditure on importation of machinery and equipment increased, mainly due to increases recorded in relation to computers, transmission apparatus, certain engineering equipment, and industrial and agricultural machinery, among others.

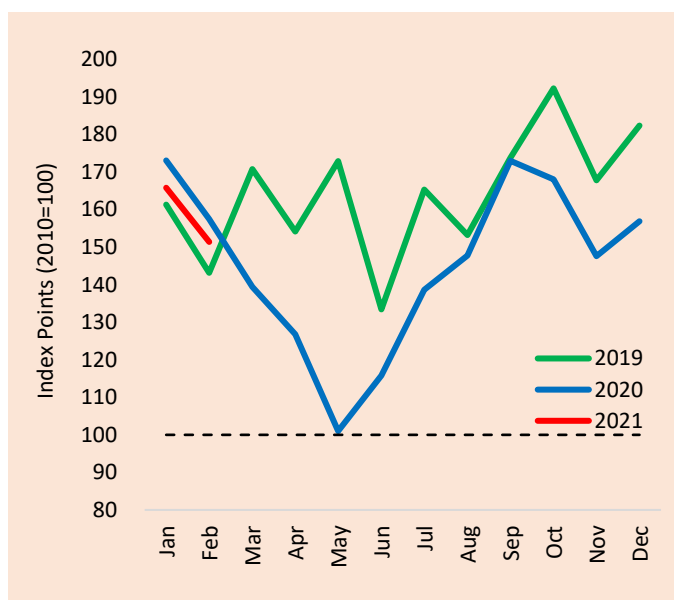
**Import indices:** The import volume index declined by 3.9 per cent, while the unit value index increased by 1.4 per cent, on a year-on-year basis, in February 2021. This indicates that the decline in import expenditure was due to lower import volumes.

**Figure 6: Monthly Import Performance**



Sources: SLC, CBSL

**Figure 7: Monthly Import Volume Index**



Source: CBSL

**Table 3: Expenditure on Merchandise Imports (a)**

Category	February 2020 (US\$ mn)	February 2021 (US\$ mn)	Change (%)	Jan-Feb 2020 (US\$ mn)	Jan-Feb 2021 (US\$ mn)	Change (%)
<b>1. Consumer goods</b>	<b>327.3</b>	<b>272.7</b>	<b>-16.7</b>	<b>699.0</b>	<b>618.3</b>	<b>-11.5</b>
Food and beverages	135.8	131.8	-3.0	283.4	315.6	11.4
Cereals and milling industry products	4.5	2.9	-35.1	9.9	6.7	-32.4
Dairy products	28.0	31.7	12.9	64.3	54.8	-14.8
Vegetables	30.0	27.2	-9.4	65.9	67.6	2.6
Seafood	11.7	5.4	-53.8	28.9	17.5	-39.3
Sugar and confectionery	25.8	29.1	12.8	45.8	86.6	88.9
Spices	13.4	6.2	-53.7	23.7	18.7	-20.9
Other food and beverages	22.3	29.3	31.2	44.7	63.6	42.1
Non-food consumer goods	191.4	140.9	-26.4	415.7	302.7	-27.2
Personal vehicles	53.6	0.9	-98.3	116.9	1.4	-98.8
Medical and pharmaceuticals	42.2	41.2	-2.4	91.0	86.0	-5.5
Home appliances	19.7	17.5	-11.0	39.7	39.4	-0.6
Clothing and accessories	27.8	17.4	-37.2	58.0	35.9	-38.0
Telecommunication devices	18.0	30.8	71.6	41.3	69.2	67.6
Household and furniture items	13.2	13.8	5.0	31.0	29.5	-4.9
Other non-food consumables	17.1	19.3	12.8	37.8	41.2	9.0
<b>2. Intermediate goods</b>	<b>911.5</b>	<b>945.9</b>	<b>3.8</b>	<b>1,846.0</b>	<b>1,860.8</b>	<b>0.8</b>
Fuel	418.7	320.2	-23.5	710.6	630.0	-11.3
o/w Crude oil	93.4	44.9	-52.0	140.3	127.1	-9.5
Refined petroleum	289.4	246.5	-14.8	496.6	443.0	-10.8
Coal	35.9	28.8	-19.7	73.6	59.9	-18.6
Diamonds, precious stones and metals	6.3	12.1	91.6	20.2	23.1	14.4
Textiles and textile articles	182.0	222.8	22.4	482.8	459.2	-4.9
Paper and paperboard and articles thereof	32.3	31.9	-1.4	70.5	63.1	-10.4
Agricultural inputs	15.7	19.3	23.6	36.3	42.5	17.0
Wheat and maize	8.4	55.5	558.6	17.3	62.4	260.1
Base metals	20.4	28.2	37.9	45.6	66.9	46.6
Plastic and articles thereof	45.2	57.8	27.9	94.9	117.1	23.5
Chemical products	64.4	77.4	20.2	138.5	165.5	19.5
Fertiliser	13.2	14.0	5.7	19.2	18.7	-2.6
Rubber and articles thereof	24.3	34.4	41.5	46.9	60.5	28.9
Mineral products	13.3	7.5	-43.3	26.0	19.8	-24.0
Other intermediate goods	67.2	64.8	-3.6	137.1	131.9	-3.8
<b>3. Investment goods</b>	<b>318.8</b>	<b>303.7</b>	<b>-4.7</b>	<b>747.0</b>	<b>633.8</b>	<b>-15.2</b>
Machinery and equipment	183.5	193.8	5.6	442.1	410.5	-7.2
Building material	102.5	89.2	-13.0	221.8	176.9	-20.2
Transport equipment	32.6	20.6	-36.8	82.5	46.1	-44.1
Other investment goods	0.3	0.1	-58.5	0.7	0.3	-55.4
<b>4. Unclassified imports</b>	<b>4.8</b>	<b>1.3</b>	<b>-72.5</b>	<b>5.7</b>	<b>2.3</b>	<b>-59.5</b>
<b>Total imports</b>	<b>1,562.3</b>	<b>1,523.6</b>	<b>-2.5</b>	<b>3,297.7</b>	<b>3,115.2</b>	<b>-5.5</b>
<b>o/w Non-fuel imports</b>	<b>1,143.6</b>	<b>1,203.4</b>	<b>5.2</b>	<b>2,587.1</b>	<b>2,485.2</b>	<b>-3.9</b>

(a) Provisional

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

Sources: SLC, CPC, Lanka IOC PLC, CBSL

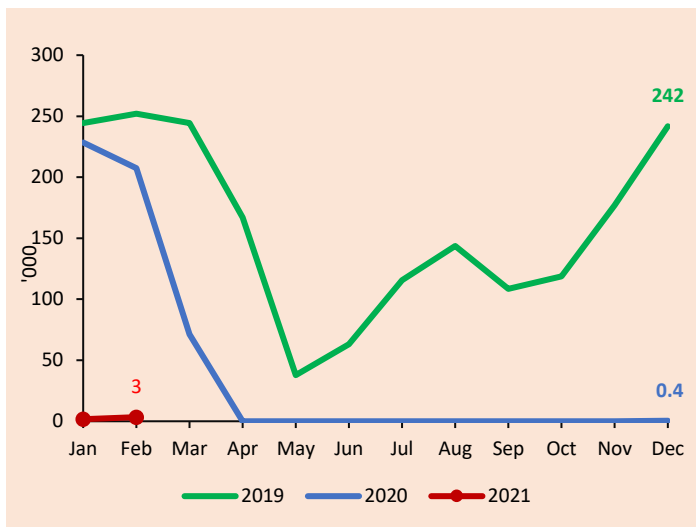


## Other Major Inflows to the Current Account

**Tourism sector commenced recovering slowly following the reopening of the country's borders for foreigners.** Accordingly, tourist arrivals in February 2021 recorded at 3,366, compared to 1,682 arrivals recorded in January 2021. However, arrivals in February 2021 were 98.4 per cent lower than the arrivals of 207,507 recorded in February 2020, immediately prior to the onset of the spread of COVID-19 in Sri Lanka. Consequently, total tourist arrivals were recorded at 5,048 during the period from January-February 2021, compared to 435,941 arrivals in the same period of 2020. The main source countries of tourist arrivals during February 2021 were Kazakhstan, Ukraine and Germany. Earnings from tourism, which are estimated based on tourist arrivals, amounted to US dollars 5 million in February 2021, compared to US dollars 279 million in the corresponding month of 2020. Accordingly, cumulative earnings from tourism are estimated at around US dollars 7 million during January- February 2021.

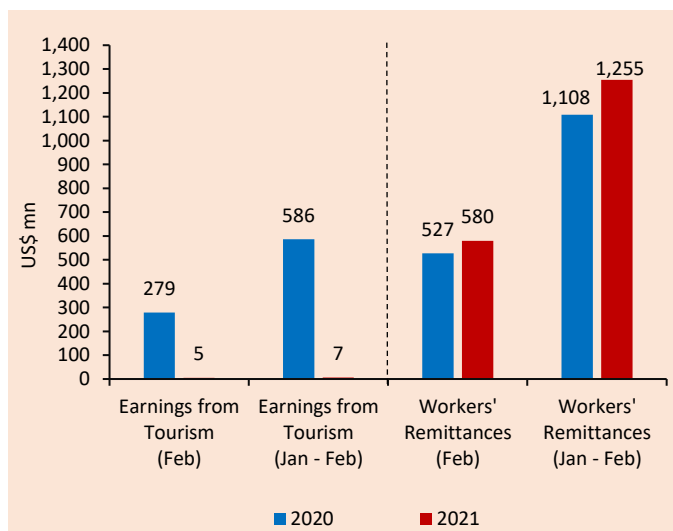
**Workers' remittances grew steadily in February 2021.** Workers' remittances increased by 9.9 per cent in February 2021, year-on-year, to US dollars 580 million. This increase led cumulative workers' remittances to record a growth of 13.2 per cent, year-on-year, to US dollars 1,255 million during the period from January to February 2021, in comparison to the corresponding period of 2020.

**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 2 million was recorded in the rupee denominated government securities market in February 2021, reducing the cumulative net inflow to around US dollars 1 million during the period from January to February 2021. The total outstanding exposure of foreign investment in the rupee denominated government securities market remained low at US dollars 36 million by end February 2021.

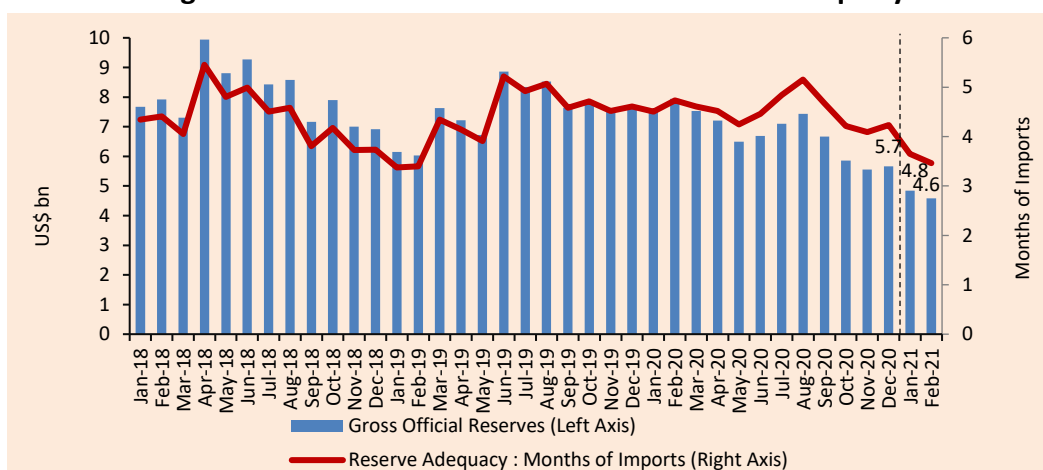
There were net outflows of US dollars 26 million from the secondary market of the CSE in February 2021. On a cumulative basis, the CSE recorded a net outflow of US dollars 70 million during the two months ending February 2021.

Meanwhile, long term loans to the Government recorded a net inflow of US dollars 22 million in February 2021.

## International Reserves

**The level of gross official reserves stood at US dollars 4.6 billion as of end February 2021.** The Central Bank settled the SAARCFINANCE swap facility of US dollars 400 million in February 2021 upon maturity. Gross official reserves as at end February 2021 were equivalent to 3.5 months of imports. Meanwhile, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 7.3 billion at end February 2021, providing an import cover of 5.5 months.

**Figure 10: Gross Official Reserves and Reserve Adequacy**

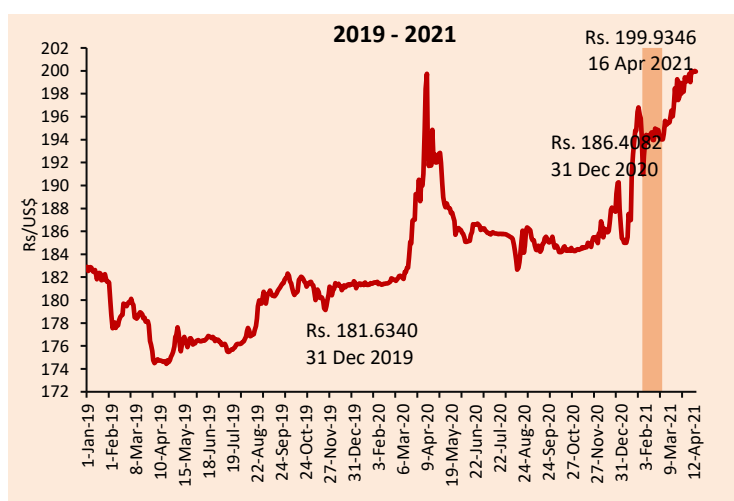


Source: CBSL

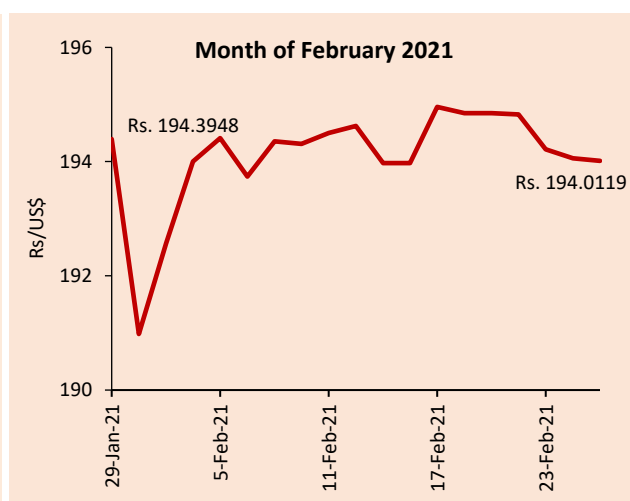
## Exchange Rate Movements

The exchange rate remained relatively stable during February 2021 due to increased customer inflows to the domestic foreign exchange market. Accordingly, the Sri Lankan rupee appreciated marginally by 0.2 per cent against the US dollar during the month of February. The implementation of regulatory measures to direct all licensed banks to sell to the Central Bank, 10 per cent of conversion of workers' remittances and 50 per cent of export proceeds converted into Sri Lankan rupees since 18 February 2021 helped the Central Bank to absorb US dollars 23 million, on a net basis, during the month. Overall, the rupee recorded a depreciation of 6.8 per cent against the US dollar in 2021 up to 16 April 2021. Meanwhile, reflecting cross-currency movements, the Sri Lankan rupee depreciated against the euro, the pound sterling, the Australian dollar, the Japanese yen and the Indian rupee during the same period.

**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 16 Apr) Depreciation (-)/ Appreciation (+)
US dollar	+0.6%	-2.6%	-6.8%
Euro	+2.6%	-11.2%	-4.0%
Pound sterling	-2.8%	-6.2%	-7.5%
Japanese yen	-1.0%	-7.5%	-1.5%
Australian dollar	+1.3%	-11.4%	-7.0%
Indian rupee	+2.6%	0.0%	-4.9%

Source: CBSL