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## External Sector Performance – March 2021

### Overview

Sri Lanka's external sector showed a mixed performance in March 2021 with a widened trade deficit on the one hand, and a healthy growth in workers' remittances and a slight pickup in the tourism sector on the other. The deficit in the trade account widened in March 2021, for the first time since April 2020. Both exports and imports were significantly higher in March 2021, compared to March 2020 as well as February 2021. However, workers' remittances grew steadily, and the tourism sector continued the recovery process, albeit at a very slow pace. In the financial account, both foreign investment in the government securities market and the Colombo Stock Exchange (CSE) continued to record marginal net outflows in March 2021 as well. The Sri Lankan rupee depreciated against the US dollar during the month, partly reflecting the seasonal demand for imports. However, mainly supported by the regulatory measures that were in place till mid-March, the Central Bank absorbed foreign exchange on a net basis during the month, to strengthen the gross official reserve position. Meanwhile, in March 2021, the Central Bank entered into a bilateral currency swap arrangement with the People's Bank of China (PBoC) for Chinese yuan 10 billion (approximately US dollars 1.5 billion) with a view to promoting bilateral trade and direct investment for economic development of the two countries, and to be used for other purposes agreed upon by both parties.

**Table 1: Summary of External Sector Performance (a)**

Category	Mar 2020 US\$ mn	Mar 2021 US\$ mn	Change (%)	Jan-Mar 2020 US\$ mn	Jan-Mar 2021 US\$ mn	Change (%)
Merchandise Exports	656	1,094	66.7	2,650	2,982	12.6
Merchandise Imports	1,205	1,926	59.8	4,503	5,041	12.0
Trade balance	-549	-832		-1,853	-2,059	
Earnings from tourism	96 (b)	6 (c)	-93.6	682 (b)	13 (c)	-98.1
Workers' remittances	492	612	24.4	1,600	1,867	16.7
Inflows to the CSE (net) (d)	-6	-21		-28	-91	
Inflows to the Government (gross)	597	146		830	299	
Treasury bills and bonds (gross)	4	4		83	7	
Long term loans (gross)	93	142		247	291	
Syndicated Loans (gross)	500	-		500	-	
Overall Balance				143	-1,101	

**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

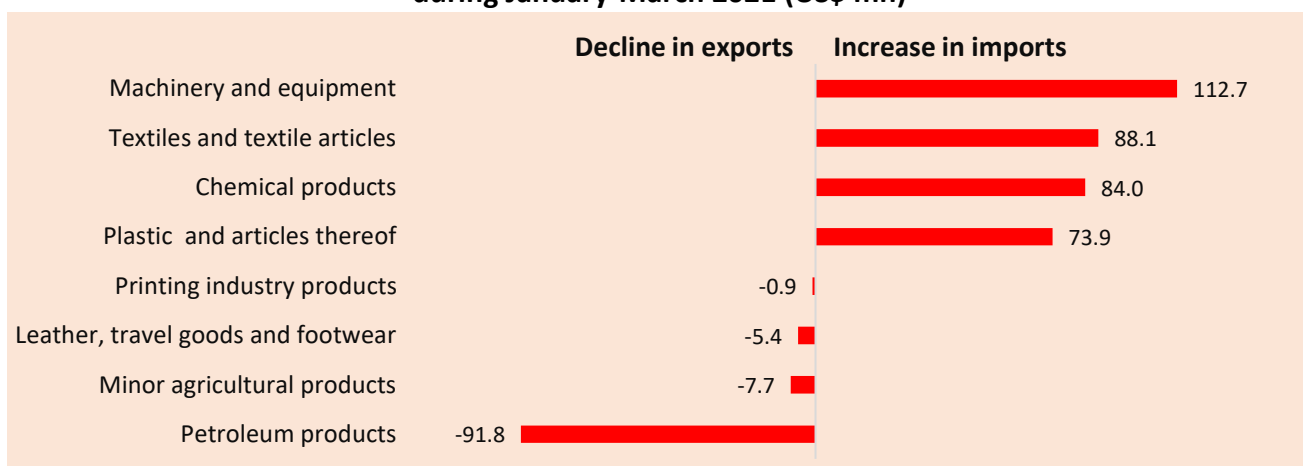
The CBSL publishes a 'Monthly Trade Bulletin', with further information on merchandise trade performance, which can be viewed at Central Bank of Sri Lanka's website under Statistics > Economic Indicators > Monthly Trade Bulletin. <https://www.cbsl.gov.lk/en/monthly-trade-bulletin>

## Trade Balance and Terms of Trade

**Trade Balance:** The deficit in the trade account widened on a year-on-year basis in March 2021, for the first time since April 2020, to US dollars 832 million compared to the deficit of US dollars 549 million recorded in March 2020 and US dollars 572 million in February 2021. Both exports and imports were significantly higher in March 2021, compared to March 2020 and February 2021. Meanwhile, the cumulative deficit in the trade account during January - March 2021 widened to US dollars 2,059 million from US dollars 1,853 million recorded over the same period in 2020. The major contributory factors for the increase in the trade deficit as at end March 2021 are shown in Figure 1.

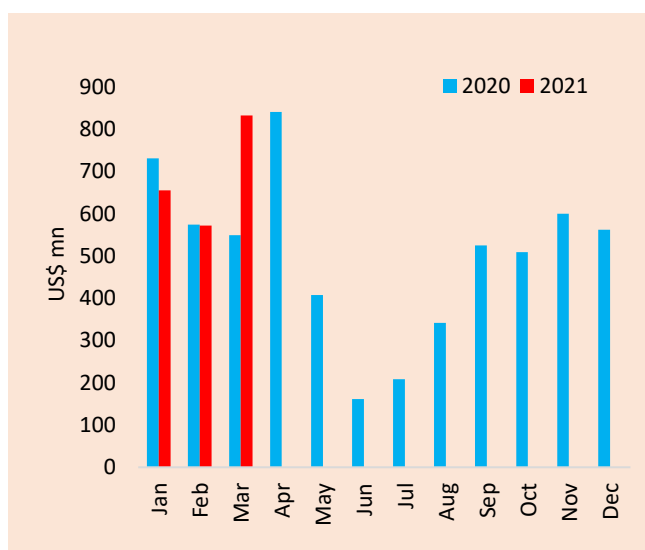
**Terms of Trade:** Terms of trade, i.e., the ratio of the price of exports to the price of imports, deteriorated by 6.3 per cent in March 2021 as the increase in import prices were higher than the increase of export prices, compared to March 2020.

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



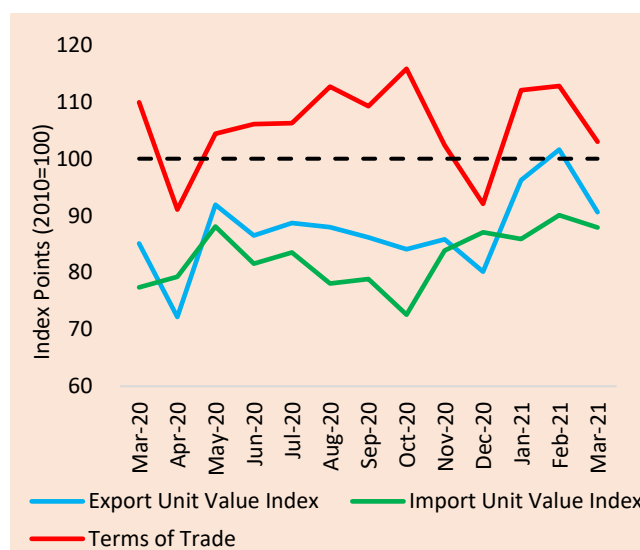
Sources: SLC, CBSL

**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 March 2021 increased by 66.7 per cent to US dollars 1,094 million, from low earnings from merchandise export in March 2020 (US dollars 656 million) during the first wave of the COVID-19. Earnings from exports improved considerably in March 2021 compared to February 2021 also raising export earnings towards pre-pandemic export levels.

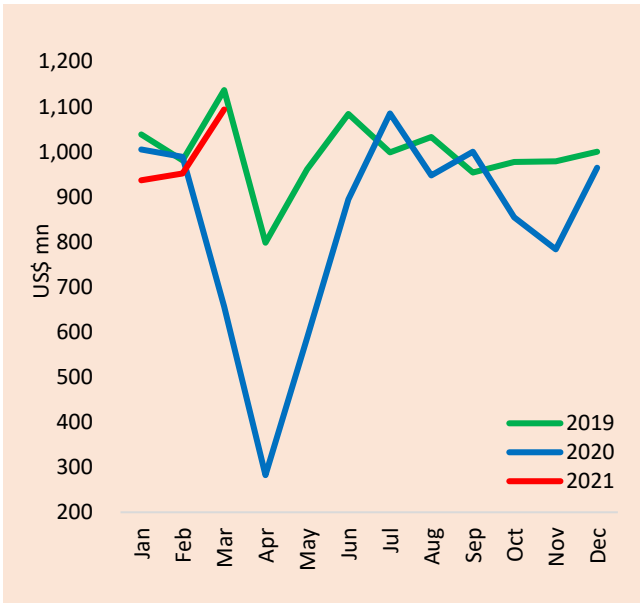
**Industrial exports:** Earnings from all subsectors of industrial goods exports, excluding petroleum products and leather, travel goods and footwear, improved in March 2021, year-on-year. On a month-on-month basis, earnings from Industrial exports increased, except for the subsector of leather, travel goods, and footwear. Earnings from textiles and garments, rubber products (mainly gloves and tyres), food, beverages and tobacco (mainly value added coconut products), base metals and articles, chemical products, and machinery and mechanical appliances exports recorded considerable growth rates compared to February 2021. Meanwhile, earnings from the export of petroleum products declined on a year-on-year basis due to the significant reduction in volumes of aviation fuel and bunkering fuel supplied to aircraft and ship arrivals, despite the increase in the average prices of these export products. Earnings from leather, travel goods and footwear export declined in March 2021 both on year-on-year and month-on-month bases.

**Agricultural exports:** Export earnings from all subsectors related to agricultural goods increased in March 2021, compared to a year ago, as well as compared with February 2021. Export earnings from tea, seafood, coconut (both kernel and non-kernel products), spices (mainly pepper), and minor agricultural products (mainly arecanuts) recorded considerable increases over February 2021.

**Mineral exports:** Mineral exports in March 2021 were also higher than the exports observed in March 2020 and February 2021, due to increased earnings in subsectors of earths and stone (mainly quartz) and ores, slag and ash (mainly titanium ores).

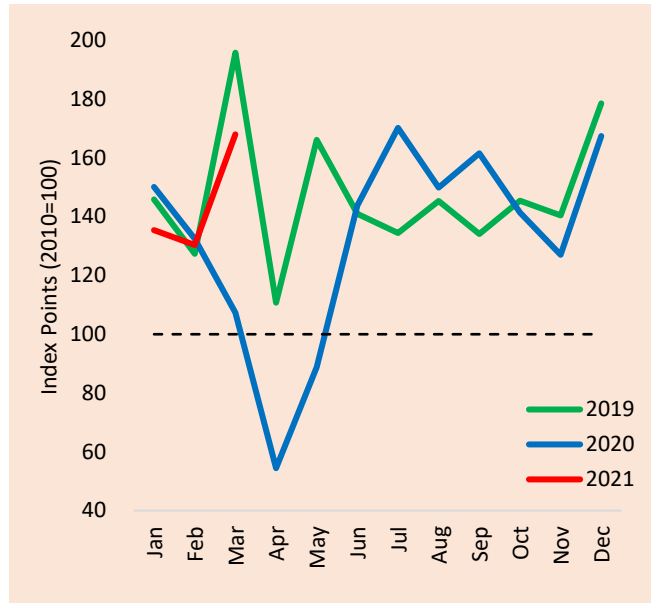
**Export indices:** The export volume index and the unit value index increased by 56.5 per cent and 6.5 per cent, respectively, on a year-on-year basis, in March 2021. This indicates that the increase in export earnings were due to the combined impact of higher export volumes and prices.

**Figure 4: Monthly Export Performance**



Sources: SLC, CBSL

**Figure 5: Monthly Export Volume Index**



Source: CBSL

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

Category	March 2020 (US\$ mn)	March 2021 (US\$ mn)	Change (%)	Jan-Mar 2020 (US\$ mn)	Jan-Mar 2021 (US\$ mn)	Change (%)
<b>1. Industrial exports</b>	<b>531.4</b>	<b>829.8</b>	<b>56.2</b>	<b>2,134.1</b>	<b>2,302.4</b>	<b>7.9</b>
Food, beverages and tobacco	38.1	51.0	33.7	110.3	132.4	20.0
Animal fodder	5.8	9.0	56.3	25.4	29.6	16.3
Textiles and garments	312.7	467.2	49.4	1,254.9	1,333.5	6.3
o/w Garments	294.1	425.3	44.6	1,163.9	1,219.1	4.7
Textiles	12.6	31.0	146.5	64.9	78.4	20.7
Other made up textile articles	6.0	11.0	82.6	26.1	36.0	38.1
Rubber products	54.5	95.2	74.8	196.2	256.3	30.7
Gems, diamonds and jewellery	8.4	27.7	228.5	54.6	70.8	29.7
Machinery and mechanical appliances	21.1	44.2	109.2	86.4	124.9	44.6
Transport equipment	3.6	10.9	201.6	17.7	26.7	50.5
Petroleum products	37.0	28.8	-22.3	177.7	85.8	-51.7
Chemical products	9.6	20.5	113.1	37.7	53.0	40.3
Wood and paper products	5.3	12.4	133.3	26.5	31.2	17.8
Printing industry products	2.9	6.1	106.6	10.7	9.7	-8.9
Leather, travel goods and footwear	3.7	3.2	-12.8	16.6	11.2	-32.7
Plastics and articles thereof	3.5	7.4	113.2	15.0	19.2	28.2
Base metals and articles	6.7	14.2	112.7	31.5	33.4	5.8
Ceramic products	1.3	3.6	171.3	6.1	9.3	51.8
Other industrial exports	17.0	28.4	66.5	66.8	75.4	12.9
<b>2. Agricultural exports</b>	<b>122.7</b>	<b>257.3</b>	<b>109.8</b>	<b>506.5</b>	<b>663.8</b>	<b>31.0</b>
Tea	62.5	124.6	99.3	270.1	338.1	25.2
Rubber	1.4	5.5	309.0	7.2	12.2	69.7
Coconut	19.7	41.2	109.2	70.4	96.3	36.7
Spices	12.9	38.6	199.1	51.0	113.8	122.9
Vegetables	1.8	3.3	83.2	6.8	6.5	-4.6
Unmanufactured tobacco	1.0	4.0	283.4	4.4	8.6	95.8
Minor agricultural products	10.5	14.6	38.2	39.6	31.9	-19.5
Seafood	12.8	25.4	98.9	57.0	56.4	-1.1
<b>3. Mineral exports</b>	<b>1.0</b>	<b>4.7</b>	<b>355.7</b>	<b>4.9</b>	<b>11.8</b>	<b>140.9</b>
<b>4. Unclassified exports</b>	<b>1.1</b>	<b>2.0</b>	<b>77.6</b>	<b>4.2</b>	<b>4.3</b>	<b>2.0</b>
<b>Total exports</b>	<b>656.2</b>	<b>1,093.8</b>	<b>66.7</b>	<b>2,649.6</b>	<b>2,982.2</b>	<b>12.6</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:** Despite the continuation of the import restriction measures, expenditure on merchandise imports increased significantly in March 2021 to US dollars 1,926 million, which was the highest monthly import value since March 2018. Accordingly, the import expenditure in March 2021 was significantly high compared to the expenditure of US dollars 1,205 million recorded in March 2020, and US dollars 1,524 million in February 2021. All major sectors of imports contributed to this increase.

**Consumer goods:** Expenditure on the importation of consumer goods increased by 42.1 per cent in March 2021, compared to March 2020, and by 39.2 per cent compared to February 2021, with increases in both food and beverages and non-food consumer goods imports. Expenditure on food and beverages imports, such as sugar and confectionery (mainly sugar), vegetables (mainly big onion and potatoes), and spices (mainly chillies), increased on a month-on-month basis. Under non-food consumer goods, expenditure on medical and pharmaceuticals, home appliances (mainly televisions, refrigerators, and fans), and telecommunication devices (mainly mobile phones) imports increased on a month-on-month basis. Expenditure on the importation of vehicles for personal use was maintained at near zero levels, whereas import values of some non-food consumer goods that are subject to import restrictions marginally increased compared with February 2021.

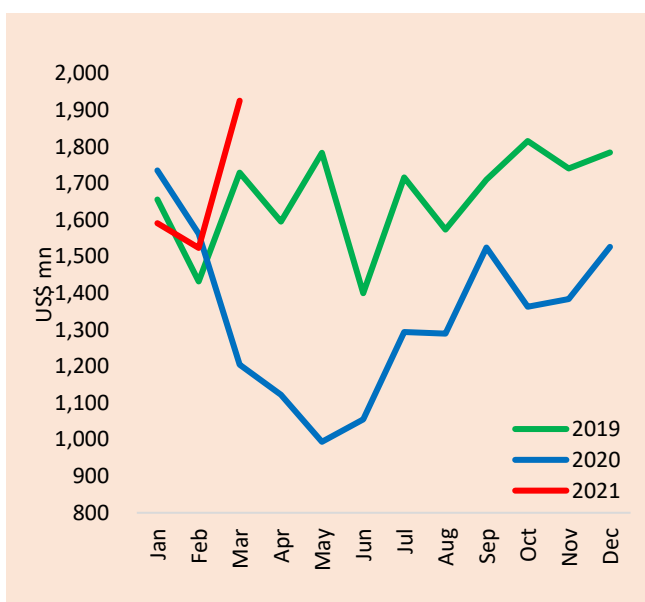
**Intermediate goods:** Import expenditure of intermediate goods increased by 61.5 per cent in March 2021, compared to a year ago, and by 19.5 per cent over the previous month. Although crude oil was not imported in March 2021 due to maintenance work at the refinery, expenditure on fuel increased (both on y-o-y and m-o-m bases) due to higher import volumes and prices of refined petroleum and coal. Average import price per metric tonne of refined petroleum increased in March 2021 to US dollars 589.45 compared to US dollars 532.75 recorded in February 2021. Import expenditure on many other intermediate goods increased (on a m-o-m basis), particularly base metals (mainly iron and steel); chemical products; textiles and textile articles; plastic and articles thereof; paper and paperboard and articles thereof; and vehicle and machinery parts.

**Investment goods:** Import expenditure on investment goods increased by 75.8 per cent in March 2021 compared to March 2020, and by 37.1 per cent compared to February 2021. The increase in investment goods (both y-o-y and m-o-m bases) was driven by expenditure on machinery and equipment and building material imports, while expenditure on transport equipment also increased. Import expenditure on machinery and equipment increased (m-o-m) with higher imports of

machinery and equipment parts, computers, turbines, transmission apparatus, whereas import expenditure on building material increased (m-o-m) with higher imports of cement and articles of iron and steel. Railway equipment, agricultural and road tractors, and tankers and bowsers imports categorised under transport equipment, also picked up in March 2021 when compared to February 2021.

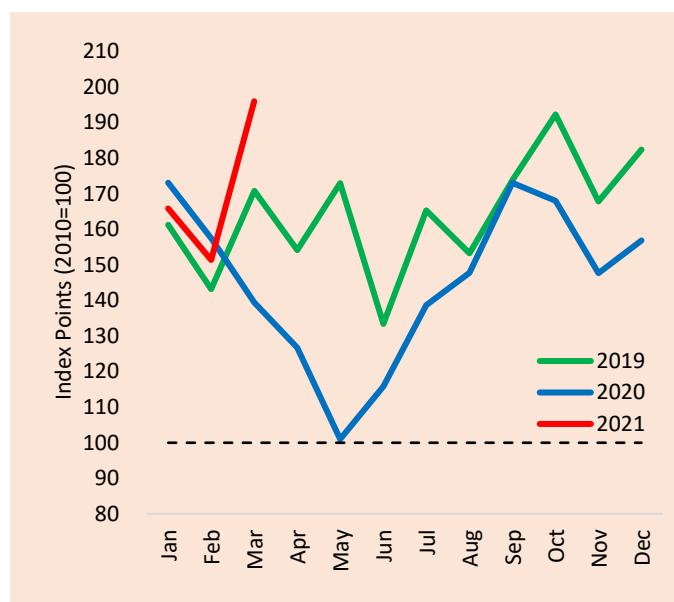
**Import indices:** The import volume index and unit value index increased by 40.6 per cent and 13.6 per cent, respectively, on a year-on-year basis, in March 2021. This indicates that the increase in import expenditure was attributable to the combined impact of both higher import volumes and prices.

**Figure 6: Monthly Import Performance**



Sources: SLC, CBSL

**Figure 7: Monthly Import Volume Index**



Source: CBSL

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

Category	March 2020 (US\$ mn)	March 2021 (US\$ mn)	Change (%)	Jan-Mar 2020 (US\$ mn)	Jan-Mar 2021 (US\$ mn)	Change (%)
<b>1. Consumer goods</b>	<b>267.1</b>	<b>379.6</b>	<b>42.1</b>	<b>966.1</b>	<b>997.9</b>	<b>3.3</b>
Food and beverages	143.0	189.7	32.6	426.4	505.3	18.5
Cereals and milling industry products	2.0	2.7	36.6	11.9	9.5	-20.8
Dairy products	32.5	35.4	8.9	96.8	90.2	-6.9
Vegetables	38.8	43.4	12.0	104.7	111.1	6.1
Seafood	17.8	7.2	-59.7	46.7	24.7	-47.1
Sugar and confectionery	27.2	50.8	86.4	73.1	137.4	88.0
Spices	11.2	18.9	69.1	34.9	37.7	7.9
Other food and beverages	13.6	31.3	129.5	58.4	94.9	62.5
Non-food consumer goods	124.0	189.9	53.1	539.7	492.6	-8.7
Personal vehicles	39.5	1.0	-97.4	156.4	2.4	-98.4
Medical and pharmaceuticals	34.4	57.7	68.0	125.4	143.8	14.7
Home appliances	10.9	31.8	191.3	50.6	71.2	40.8
Clothing and accessories	15.2	19.8	30.3	73.2	55.7	-23.8
Telecommunication devices	7.4	40.6	448.1	48.7	109.8	125.5
Household and furniture items	6.9	13.3	94.3	37.8	42.8	13.1
Other non-food consumables	9.8	25.6	160.7	47.6	66.8	40.3
<b>2. Intermediate goods</b>	<b>699.7</b>	<b>1,129.9</b>	<b>61.5</b>	<b>2,545.7</b>	<b>2,990.7</b>	<b>17.5</b>
Fuel	237.7	347.2	46.1	948.2	977.2	3.0
o/w Crude oil	54.6	0.0	-100.0	194.9	127.1	-34.8
Refined petroleum	153.1	310.5	102.7	649.7	753.5	16.0
Coal	29.9	36.7	22.5	103.6	96.6	-6.7
Diamonds, precious stones and metals	5.4	13.3	144.8	25.7	36.4	42.0
Textiles and textile articles	139.3	250.9	80.2	622.0	710.2	14.2
Paper and paperboard and articles thereof	20.4	42.7	109.0	90.9	105.8	16.4
Agricultural inputs	14.5	25.0	72.3	50.8	67.5	32.8
Wheat and maize	62.5	31.1	-50.3	79.8	93.5	17.1
Base metals	52.6	86.6	64.5	98.2	153.5	56.2
Plastic and articles thereof	32.0	83.6	161.3	126.9	200.7	58.2
Chemical products	52.0	109.1	109.7	190.5	274.6	44.1
Fertiliser	6.7	16.3	144.3	25.9	35.0	35.2
Rubber and articles thereof	20.5	40.6	97.5	67.5	101.1	49.8
Mineral products	13.9	8.0	-42.9	40.0	27.7	-30.6
Other intermediate goods	42.2	75.7	79.6	179.3	207.6	15.8
<b>3. Investment goods</b>	<b>236.8</b>	<b>416.3</b>	<b>75.8</b>	<b>983.8</b>	<b>1,050.1</b>	<b>6.7</b>
Machinery and equipment	130.2	274.6	110.8	572.4	685.1	19.7
Building material	72.7	106.7	46.9	294.4	283.6	-3.7
Transport equipment	33.7	34.8	3.3	116.1	80.9	-30.3
Other investment goods	0.2	0.2	-11.3	0.9	0.5	-44.1
<b>4. Unclassified imports</b>	<b>1.5</b>	<b>0.2</b>	<b>-89.7</b>	<b>7.1</b>	<b>2.4</b>	<b>-65.7</b>
<b>Total imports</b>	<b>1,205.0</b>	<b>1,925.9</b>	<b>59.8</b>	<b>4,502.7</b>	<b>5,041.1</b>	<b>12.0</b>
<b>o/w Non-fuel imports</b>	<b>967.4</b>	<b>1,578.8</b>	<b>63.2</b>	<b>3,554.5</b>	<b>4,064.0</b>	<b>14.3</b>

(a) Provisional

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

Sources: SLC, CPC, Lanka IOC PLC, CBSL

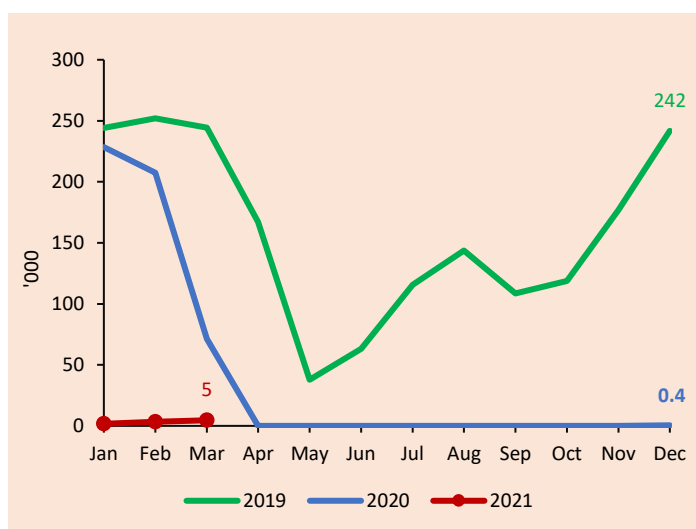


## Other Major Inflows to the Current Account

**The tourism sector saw some arrivals during the month of March.** Tourist arrivals in March 2021 were recorded at 4,581, compared to 3,366 arrivals recorded in February 2021. Arrivals in March 2021 were 93.6 per cent lower than the arrivals of 71,370 recorded in March 2020. Consequently, total tourist arrivals were recorded at 9,629 during the first quarter of 2021, compared to 507,311 arrivals in the corresponding period of 2020. The main source countries of tourist arrivals during March 2021 were Kazakhstan, Germany and the United Kingdom. Earnings from tourism, which are estimated based on tourist arrivals, amounted to US dollars 6 million in March 2021, compared to US dollars 96 million in the corresponding month of 2020. Cumulative earnings from tourism are estimated at around US dollars 13 million during the first quarter of 2021 as opposed to US dollars 682 million recorded in the same period in 2020.

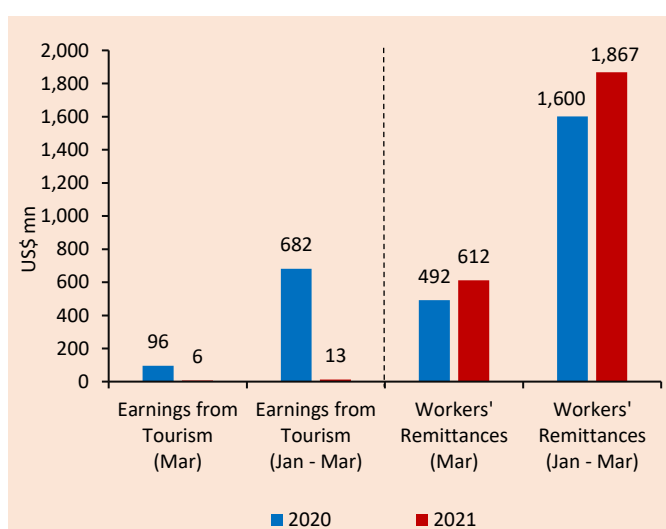
**Workers' remittances demonstrated a significant growth in March 2021.** Workers' remittances increased significantly by 24.4 per cent in March 2021, year-on-year, to US dollars 612 million. The high growth rate was partly due to the base effect of the corresponding month in the previous year when the first wave of the pandemic set in. This increase led cumulative workers' remittances to record a growth of 16.7 per cent, year-on-year, to US dollars 1,867 million during the period from January to March 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

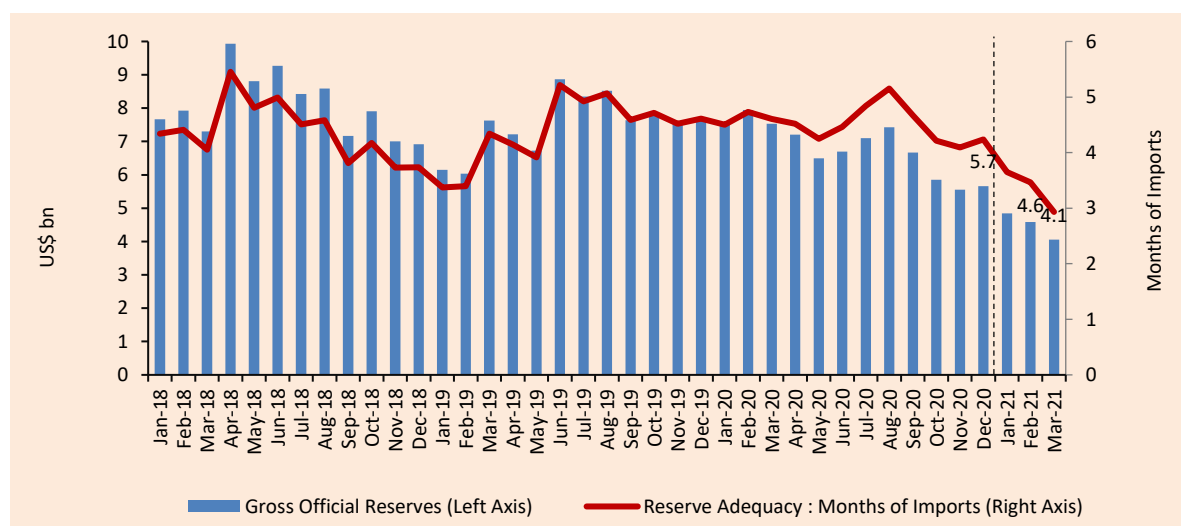
### Marginal net foreign investment outflows from capital markets were recorded in March 2021.

Accordingly, a net outflow of US dollars 6 million was recorded in the rupee denominated government securities market in March 2021, resulting in a cumulative net outflow of around US dollars 5 million during the first quarter of 2021. The total outstanding exposure of foreign investment in the rupee denominated government securities market remained low at US dollars 31 million by end March 2021. A net outflow of US dollars 21 million was recorded from the secondary market of the CSE in March 2021. On a cumulative basis, the CSE recorded a net outflow of US dollars 91 million during the first quarter of 2021. Meanwhile, long term loans to the Government also recorded a net outflow of US dollars 93 million in March 2021.

## International Reserves

**The level of gross official reserves stood at US dollars 4.1 billion as of end March 2021.** Gross official reserves as at end March 2021 were equivalent to 2.9 months of imports. Meanwhile, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 6.5 billion at end March 2021, providing an import cover of 4.7 months. The bilateral currency swap facility signed between the Central Bank and the PBoC of Chinese yuan 10 billion (approximately US dollars 1.5 billion) is considered as a standby arrangement and is not included in reserves.

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

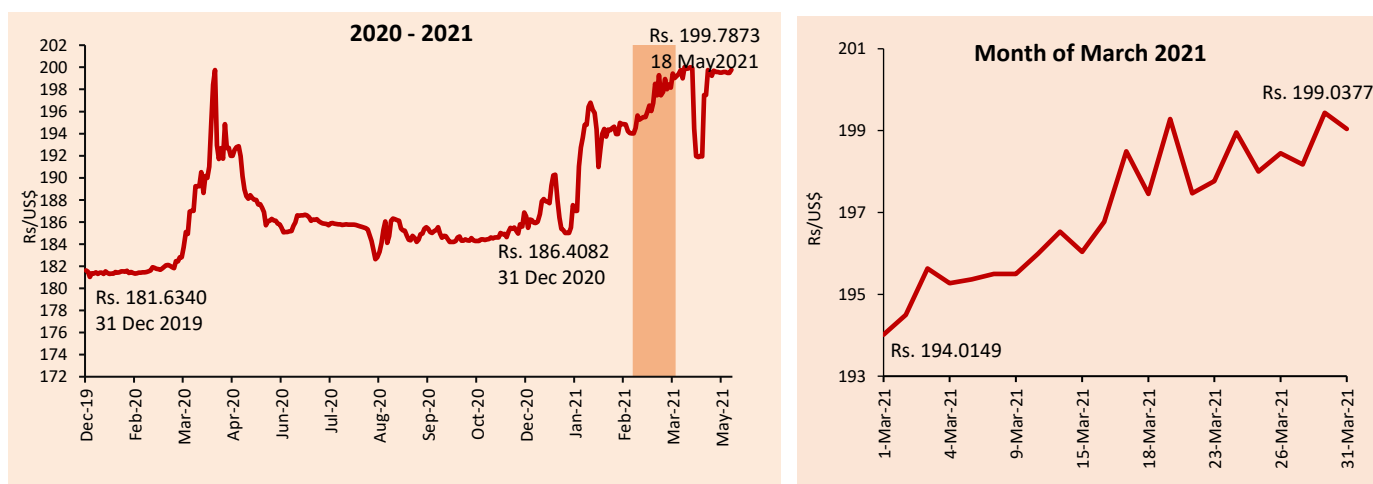


Source: CBSL

## Exchange Rate Movements

The exchange rate came under severe pressure during March 2021, partly reflecting the seasonal demand for imports. Accordingly, the Sri Lankan rupee depreciated by 2.5 per cent against the US dollar during the month of March. Overall, the rupee recorded a depreciation of 6.7 per cent against the US dollar in 2021 up to 18 May 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 during the same period. Meanwhile, the Central Bank continued to absorb foreign exchange from the market on a net basis to build up gross official reserves during March 2021, as well as on a net basis thus far during the year.

**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	2021 (up to 18 May) Depreciation (-)/ Appreciation (+)
US dollar	+0.6%	-2.6%	-6.7%
Euro	+2.6%	-11.2%	-5.6%
Pound sterling	-2.8%	-6.2%	-10.2%
Japanese yen	-1.0%	-7.5%	-1.2%
Australian dollar	+1.3%	-11.4%	-7.7%
Indian rupee	+2.6%	0.0%	-6.5%

Source: CBSL