

PRESS RELEASE

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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Issued By **Economic Research Department**

Date **14 July 2021**

External Sector Performance – May 2021

Overview

The deficit in the trade account widened on a year-on-year basis for the third consecutive month in May 2021. Both exports and imports were significantly higher in May 2021 than in May 2020, mainly due to the statistical effect of pandemic related disruptions a year ago. Earnings from exports increased, while imports declined in May 2021 compared to the previous month. During the month, workers' remittances continued to increase, while earnings from tourism remained at minimal levels. In the financial account, foreign investment in the government securities market and the Colombo Stock Exchange (CSE) recorded marginal net outflows in May 2021. Meanwhile, the Sri Lankan rupee remained broadly stable throughout the month, and gross official reserves stood at US dollars 4.0 billion by end May 2021.

Table 1: Summary of External Sector Performance (a)

Category	May 2020 US\$ mn	May 2021 US\$ mn	Change (%)	Jan-May 2020 US\$ mn	Jan-May 2021 US\$ mn	Change (%)
Merchandise Exports	587	892	52.0	3,519	4,692	33.3
Merchandise Imports	994	1,607	61.7	6,619	8,356	26.2
Trade balance	-407	-716		-3,101	-3,663	
Earnings from tourism	-	2 (c)	-	682 (b)	21 (c)	-97.0
Workers' remittances	432	460	6.6	2,407	2,846	18.2
Inflows to the CSE (net) (d)	-36	-12		-64	-119	
Inflows to the Government (gross)	121	7 (e)		1,092	877 (f)	
Treasury bills and bonds (gross)	2	7		86	14	
Long term loans (gross)	118	n.a.		1,006	863 (f)	
Foreign Direct Investment (gross) (g)				188	198	
Overall Balance				-797	-1,053	

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
- (e) Data for gross inflows to the government excludes foreign loans in May 2021
- (f) Cumulative data for long term loans includes foreign loans only up to April 2021
- (g) Data available for the first three 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>

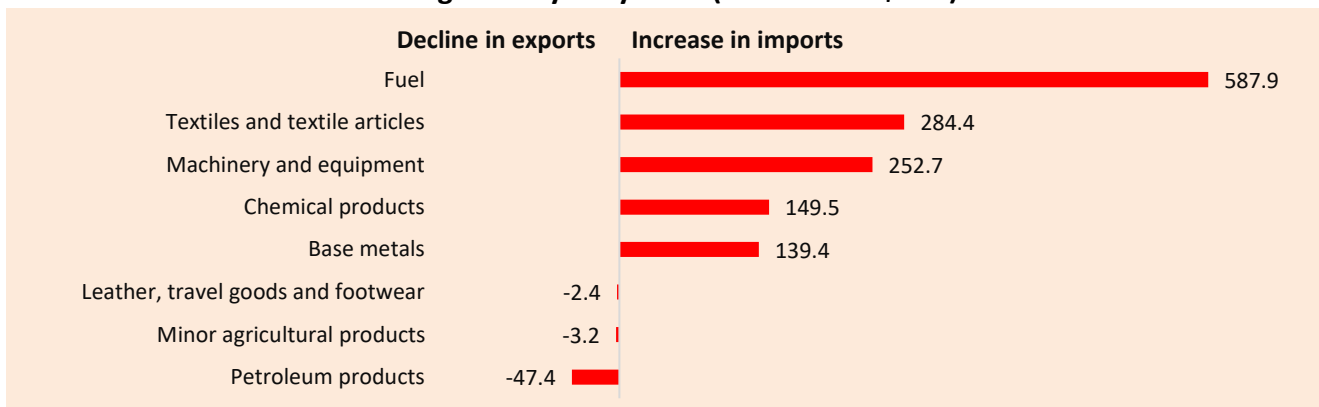
Trade Balance and Terms of Trade

Trade Balance: The trade deficit widened on a year-on-year basis for the third consecutive month in May 2021 to US dollars 716 million, compared to US dollars 407 million recorded in May 2020.

Greater increase in import expenditure as against the increase in export earnings in May 2021 over May 2020 resulted in the widening of the trade deficit. However, the trade deficit showed a month-on-month improvement in May 2021 compared to US dollars 889 million in April 2021. The cumulative trade deficit widened to US dollars 3,663 million during the period from January to May 2021 from US dollars 3,101 million recorded in the corresponding period in 2020. The major contributory factors for this outcome are shown in Figure 1.

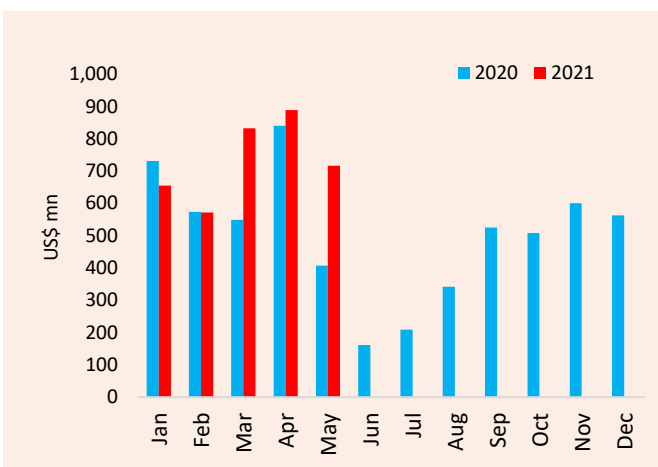
Terms of Trade: Terms of trade, i.e., the ratio of the price of exports to the price of imports, deteriorated by 11.5 per cent in May 2021, compared to May 2020, with prices of imports having increased while prices of exports declining.

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



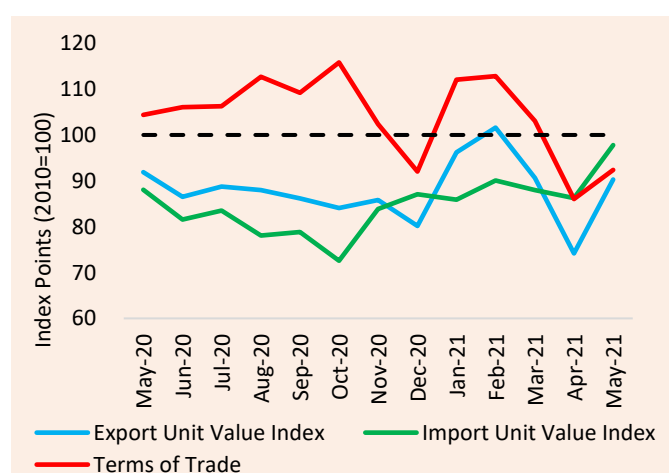
Sources: SLC, CBSL

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 increased to US dollars 892 million in May 2021, recording growth rates of 52.0 per cent and 9.0 per cent over May 2020 and April 2021, respectively, with higher earnings from all major sectors. Cumulative export earnings from January to May 2021 amounted to US dollars 4,692 million, a 33.3 per cent increase compared to the corresponding period of 2020, which is largely attributable to lower statistical base during the island wide lockdown in the early months of 2020.

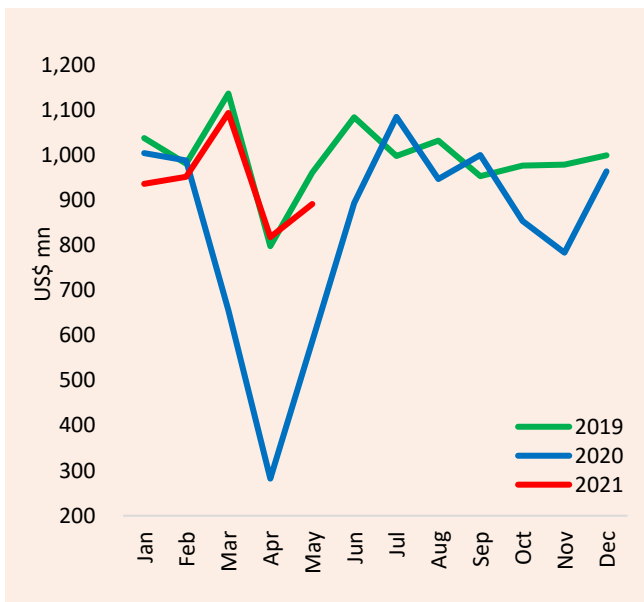
Industrial exports: Along with improvements in exports across all subcategories, earnings from the export of industrial goods registered a notable increase in May 2021 over May 2020. The month-on-month increase in earnings from industrial exports in May 2021 was 6.2 per cent, led by broad based improvement in most subcategories. Rubber products (mainly rubber tires and gloves); machinery and mechanical appliances (mainly electronic equipment); textiles and garments (mainly garments exports to the EU); chemical products (mainly activated carbon) and base metals recorded increases in May 2021 compared to April 2021. However, the subsectors of printing industry products; gems, diamonds and jewellery; petroleum products; and leather, travel goods and footwear recorded declines over the same period. Despite the increased earnings from bunker and aviation fuel exports, earnings from the export of petroleum products declined in May 2021, on a month-on-month basis, mainly due to lower exports of other petroleum products such as naphtha.

Agricultural exports: In May 2021, earnings from the export of agricultural goods increased by 8.9 per cent compared to May 2020. On a month-on-month basis, earnings from all the subcategories of agricultural exports increased, except seafood, natural rubber and unmanufactured tobacco. Despite the marginal decline in average export prices, earnings from tea exports increased notably in May 2021 over April 2021 due to higher export volumes. In addition, earnings from exports of spices (mainly cinnamon, nutmeg and mace), coconut (both kernel and non-kernel products) and minor agricultural products improved in May 2021 on a month-month basis.

Mineral exports: Earnings from mineral exports were higher in May 2021 than in May 2020 and April 2021. The month-on-month increase in earnings from mineral exports in May 2021 was led by higher earnings from earths and stone (mainly granite and graphite powder).

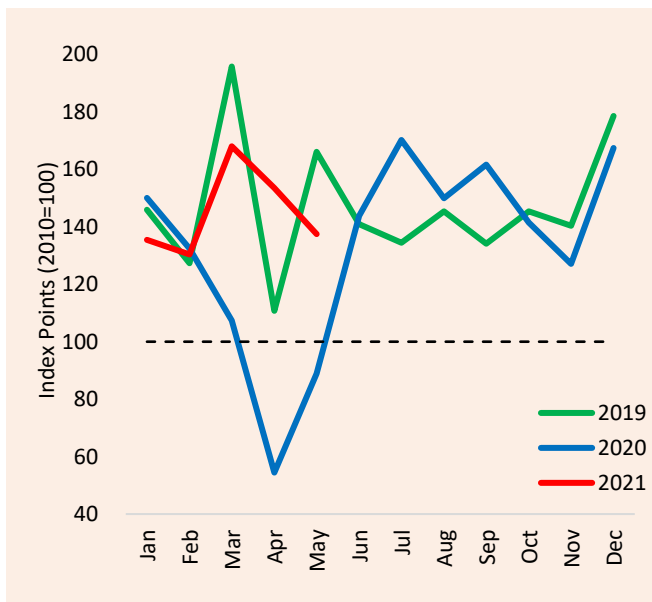
Export indices: The export volume index increased by 54.7 per cent while the unit value index declined by 1.8 per cent on a year-on-year basis, in May 2021. This indicates that the increase in export earnings, on a year-on-year basis, was due to the impact of higher export volumes.

Figure 4: Monthly Export Performance



Sources: SLC, CBSL

Figure 5: Monthly Export Volume Index



Source: CBSL

Table 2: Earnings from Merchandise Exports (a)

Category	May 2020 (US\$ mn)	May 2021 (US\$ mn)	Change (%)	Jan-May 2020 (US\$ mn)	Jan-May 2021 (US\$ mn)	Change (%)
1. Industrial exports	401.0	687.0	71.3	2,695.8	3,636.4	34.9
Food, beverages and tobacco	29.3	38.9	32.9	156.1	206.3	32.1
Animal fodder	8.2	11.3	38.2	37.9	50.2	32.3
Textiles and garments	220.1	372.4	69.2	1,540.2	2,071.9	34.5
o/w Garments	189.1	334.9	77.0	1,411.2	1,890.9	34.0
Textiles	15.0	27.6	83.6	85.1	126.5	48.7
Other madeup textile articles	16.0	10.0	-37.6	44.0	54.5	23.9
Rubber products	49.4	88.9	80.1	269.7	406.8	50.8
Gems, diamonds and jewellery	6.8	16.0	133.5	61.6	111.0	80.2
Machinery and mechanical appliances	20.8	40.9	96.3	116.3	196.9	69.4
Transport equipment	4.1	7.9	94.1	23.2	42.0	80.9
Petroleum products	10.6	33.3	213.7	202.8	155.4	-23.4
Chemical products	13.9	19.6	40.8	59.3	87.8	48.1
Wood and paper products	7.1	9.7	36.7	36.4	49.4	35.7
Printing industry products	1.4	2.1	46.7	13.1	24.1	83.7
Leather, travel goods and footwear	2.6	2.9	11.6	20.2	17.8	-11.8
Plastics and articles thereof	3.5	5.7	62.5	19.8	29.9	50.9
Base metals and articles	8.1	13.3	64.5	45.8	55.3	20.8
Ceramic products	1.2	2.9	146.7	7.6	14.3	86.6
Other industrial exports	13.8	21.1	52.7	85.6	117.3	37.0
2. Agricultural exports	183.0	199.3	8.9	809.8	1,028.7	27.0
Tea	108.3	109.2	0.9	456.7	526.6	15.3
Rubber	1.8	2.3	24.4	10.6	17.6	66.9
Coconut	27.9	34.0	22.2	112.6	157.7	40.1
Spices	19.3	25.2	30.5	82.4	161.3	95.9
Vegetables	1.9	1.9	1.5	9.9	10.3	3.4
Unmanufactured tobacco	2.2	1.7	-21.6	8.2	13.1	59.2
Minor agricultural products	10.2	9.9	-2.7	54.7	51.5	-5.8
Seafood	11.5	15.0	30.5	74.8	90.6	21.1
3. Mineral exports	2.2	4.5	99.0	8.1	20.4	152.2
4. Unclassified exports	0.5	1.0	123.2	4.9	6.6	34.8
Total exports	586.7	891.7	52.0	3,518.6	4,692.0	33.3

(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 in May 2021 increased notably by 61.7 per cent to US dollars 1,607 million from import expenditure of US dollars 994 million in May 2020.

However, import expenditure in May 2021 was lower when compared to the imports of US dollars 1,707 million in April 2021, supported by lower expenditure in all major import sectors. Meanwhile, the cumulative export earnings during January to May 2021 amounted to US dollars 8,356 million, recording an increase of 26.2 per cent over the same period in 2020.

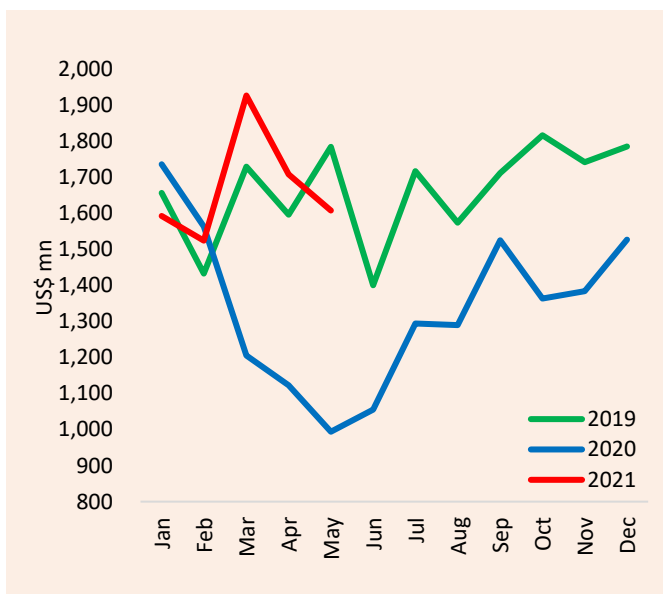
Consumer goods: Expenditure on the importation of both food and beverages and non-food consumer good categories declined in May 2021 on both year-on-year (by 4.1 per cent) and month-on-month (by 9.0 per cent) bases. Under food and beverages, items such as sugar and confectionery (mainly cane sugar); fruits (mainly apples and dried fruits); and dairy products (mainly milk powder and cheese) recorded lower import expenditure in May 2021 compared to a month ago. However, import expenditure on vegetables (mainly lentils and onions); oils and fats (mainly coconut oil); spices (mainly chilies and coriander seeds); and seafood (mainly preserved fish) increased in May 2021 on a month-on-month basis. Import expenditure on almost all subcategories of non-food consumer goods declined in May 2021 compared to April 2021, led by lower expenditure on home appliances (mainly refrigerators and televisions); medical and pharmaceuticals and clothing and accessories.

Intermediate goods: Expenditure on intermediate goods increased by 115.0 per cent in May 2021, compared to a year ago, but declined by 2.8 per cent over the previous month. In May 2021, import expenditure on fuel; fertiliser (mainly urea); wheat and maize; vehicle and machinery parts (mainly motor vehicle parts); and rubber and articles thereof declined, while import expenditure on base metals (mainly iron and steel); chemical products; plastics and articles thereof; and textiles and textile articles increased, on a month-on-month basis. Import expenditure on fuel, which consists crude oil, refined petroleum and coal, declined in May 2021 compared to April 2021 and the decline was attributed to lower import volumes despite the increase in import prices. The average import price of crude oil increased to US dollars 68.47 per barrel in May 2021 compared to US dollars 66.44 per barrel in April 2021 (US dollars 25.44 per barrel in May 2020). Similarly, the average import price of refined petroleum increased to US dollars 593.83 per metric ton in May 2021 from US dollars 571.23 per metric ton in April 2021 (US dollars 291.38 per metric ton in May 2020).

Investment goods: Expenditure on investment goods increased by 27.9 per cent in May 2021 on a year-on-year basis, although declined by 12.7 per cent on a month-on-month basis. The month-on-month decline in May 2021 was driven by lower expenditure in machinery and equipment (mainly machinery and equipment parts, pumps, engineering equipment) and transport equipment (mainly lorries). However, expenditure on building material, such as iron, steel and articles thereof as well as expenditure on transmission apparatus; electronic integrated circuits; and medical and laboratory equipment that are categorised under machinery and equipment, increased in May 2021 compared to April 2021.

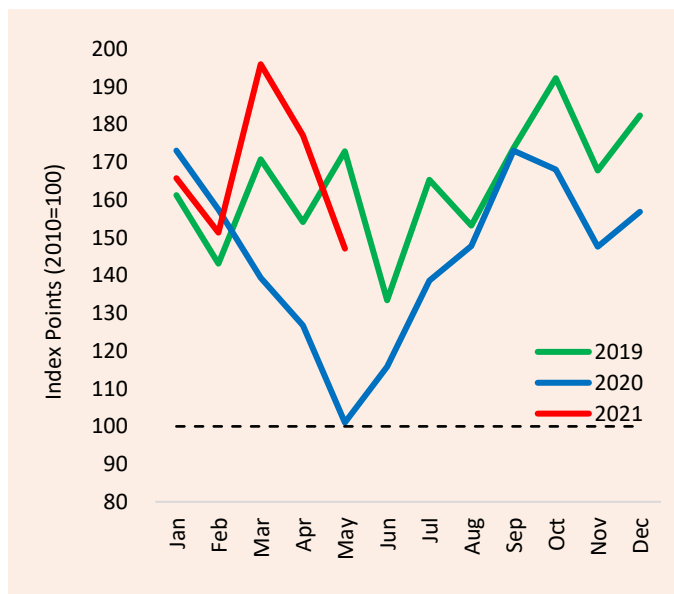
Import indices: The import volume index and unit value index increased by 45.7 per cent and 11.0 per cent, respectively, on a year-on-year basis in May 2021. This indicates that the increase in import expenditure, on a year-on-year basis, was attributable to the combined impact of higher import volumes 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	May 2020 (US\$ mn)	May 2021 (US\$ mn)	Change (%)	Jan-May 2020 (US\$ mn)	Jan-May 2021 (US\$ mn)	Change (%)
1. Consumer goods	264.4	253.6	-4.1	1,533.0	1,530.1	-0.2
Food and beverages	122.1	121.0	-0.9	685.4	749.8	9.4
Cereals and milling industry products	1.8	3.2	73.6	15.7	16.0	1.5
Dairy products	36.0	23.7	-34.1	160.1	138.6	-13.4
Vegetables (b)	30.3	33.5	10.6	175.9	171.5	-2.5
Seafood	19.5	10.0	-49.0	84.9	43.1	-49.2
Sugar and confectionery	15.1	15.5	2.7	103.5	182.9	76.8
Spices	9.6	12.1	26.0	59.8	59.5	-0.4
Other food and beverages	9.8	23.0	135.8	85.6	138.2	61.5
Non-food consumer goods	142.3	132.6	-6.8	847.6	780.2	-8.0
Personal vehicles	47.5	0.5	-99.0	264.2	4.0	-98.5
Medical and pharmaceuticals	49.0	41.1	-16.2	213.8	233.4	9.2
Home appliances	10.2	15.4	50.6	76.7	113.0	47.3
Clothing and accessories	8.1	15.4	88.7	93.5	90.3	-3.4
Telecommunication devices	9.0	26.8	198.5	72.0	163.8	127.5
Household and furniture items	8.9	11.5	28.9	57.2	65.0	13.6
Other non-food consumables	9.6	22.0	130.4	70.2	110.8	57.8
2. Intermediate goods	486.3	1,045.4	115.0	3,602.0	5,111.1	41.9
Fuel	62.9	330.5	425.5	1,133.0	1,720.9	51.9
o/w Crude oil	15.4	92.8	501.5	224.6	317.0	41.2
Refined petroleum	47.5	237.7	400.8	782.0	1,277.3	63.3
Coal	0.0	0.0	788.9	126.3	126.6	0.2
Diamonds, precious stones and metals	5.1	8.2	61.0	32.3	51.7	60.1
Textiles and textile articles	121.0	235.7	94.7	889.9	1,174.3	32.0
Paper and paperboard and articles thereof	29.2	42.6	46.0	149.2	189.4	26.9
Agricultural inputs	16.7	22.4	34.6	86.0	109.0	26.8
Wheat and maize	39.8	20.8	-47.8	128.7	141.0	9.6
Base metals	20.8	102.8	393.4	157.7	297.0	88.4
Plastic and articles thereof	31.5	64.9	106.4	199.4	322.7	61.8
Chemical products	60.5	100.9	66.8	316.0	465.5	47.3
Fertiliser	29.8	13.0	-56.3	84.8	95.2	12.3
Rubber and articles thereof	15.9	27.9	75.2	96.5	161.3	67.2
Mineral products	7.7	15.9	106.7	60.1	60.4	0.5
Other intermediate goods	45.4	59.7	31.4	268.5	322.7	20.2
3. Investment goods	240.9	308.1	27.9	1,474.3	1,711.2	16.1
Machinery and equipment	158.1	183.2	15.9	843.6	1,096.2	30.0
Building material	57.8	101.1	74.9	417.2	482.9	15.7
Transport equipment	24.8	23.3	-6.2	212.3	131.0	-38.3
Other investment goods	0.1	0.5	221.5	1.2	1.1	-9.0
4. Unclassified imports	2.2	0.3	-88.4	9.9	3.0	-69.1
Total imports	993.8	1,607.4	61.7	6,619.1	8,355.5	26.2
o/w Non-fuel imports	930.9	1,276.9	37.2	5,486.2	6,634.6	20.9

(a) Provisional

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

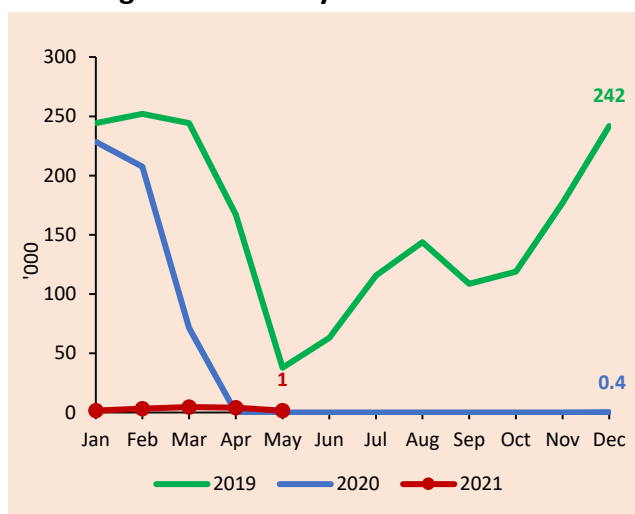
Sources: SLC, CPC, Lanka IOC PLC, CBSL

Other Major Inflows to the Current Account

Workers' remittances continued its growth momentum in May 2021 as well. Accordingly, workers' remittances increased by 6.6 per cent in May 2021, year-on-year, to US dollars 460 million. Workers' remittances during the first five months of the year recorded a notable growth of 18.2 per cent, year-on-year, to US dollars 2,846 million, partly due to the low base effect.

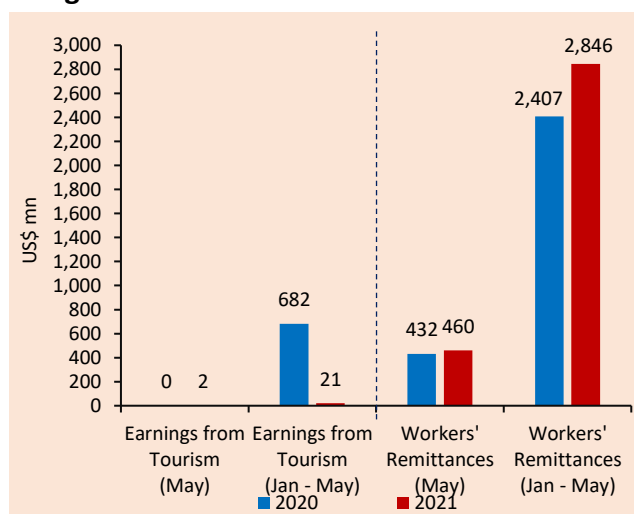
The tourism sector experienced a limited number of arrivals in May 2021. Tourist arrivals in May 2021 were recorded at 1,497, compared to 4,168 arrivals in April 2021. A total of 15,294 tourist arrivals was recorded during the first five months of 2021, compared to 507,311 arrivals in the corresponding period of 2020. The main source countries of tourist arrivals in May 2021 were China, Germany and the United States. Earnings from tourism, which are estimated based on tourist arrivals, amounted to US dollars 2 million in May 2021. Cumulative earnings from tourism are estimated at around US dollars 21 million during the first five months of 2021 as opposed to US dollars 682 million recorded during the same period in 2020.

Figure 8: Monthly Tourist Arrivals



Source: SLTDA

Figure 9: Tourism and Workers' Remittances



Sources: SLTDA, Licensed Banks, CBSL

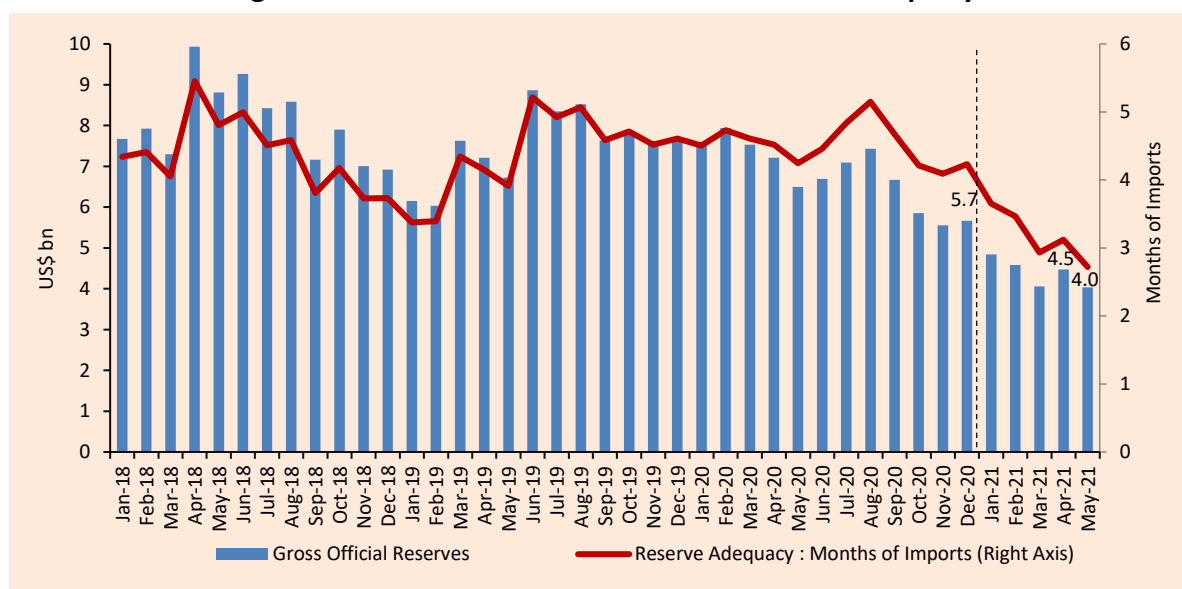
Financial Flows

A marginal net foreign investment outflow was recorded in the government securities market in **May 2021**. Cumulative net outflow from the government securities market during the first five months of 2021 amounted to US dollars 14 million. The total outstanding exposure of foreign investment in the rupee denominated government securities market remained low at US dollars 23 million by end May 2021. Meanwhile, a net outflow of US dollars 12 million was recorded from the CSE in May 2021. On a cumulative basis, the CSE recorded a net outflow of US dollars 119 million during the first five months of 2021.

International Reserves

Gross official reserves stood at US dollars 4.0 billion at end May 2021, which provided an import cover of 2.7 months. Meanwhile, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to US dollars 6.8 billion at end May 2021, providing an import cover of 4.6 months. The level of reserves reported above does not include the 3-year bilateral currency swap facility amounting to CNY 10 billion (approximately US dollars 1.5 billion) between the People’s Bank of China (PBoC) and the CBSL.

Figure 10: Gross Official Reserves and Reserve Adequacy

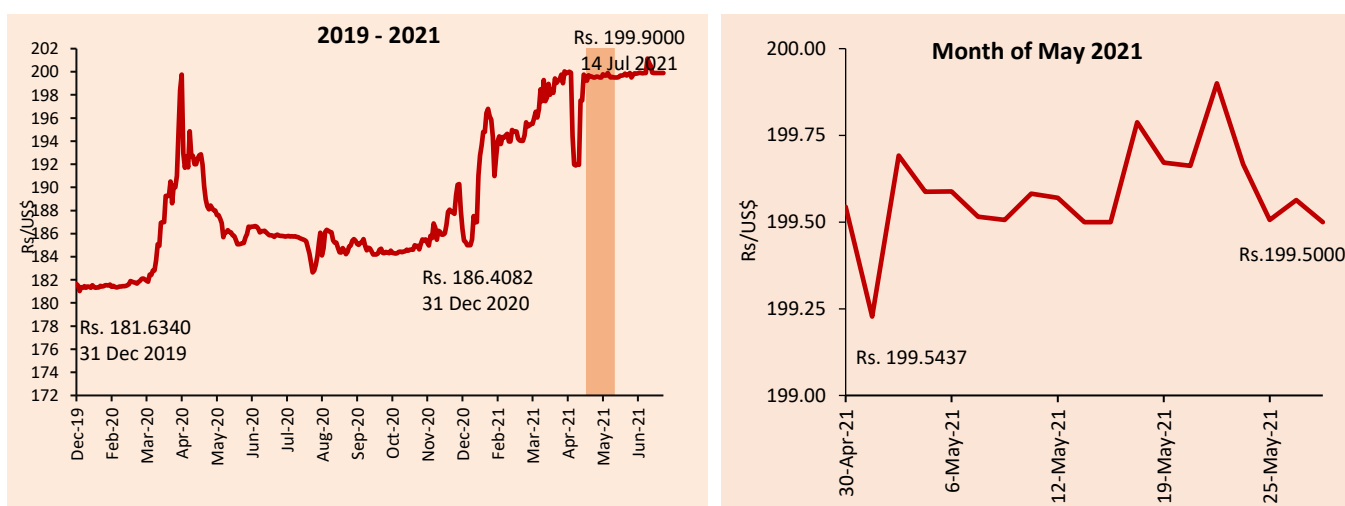


Source: CBSL

Exchange Rate Movements

The exchange rate remained broadly stable during the month of May 2021. The Sri Lankan rupee recorded a marginal appreciation of 0.02 per cent against the US dollar during the month of May. During the year up to 14 July 2021, the rupee recorded a depreciation of 6.7 per cent against the US dollar. 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 year up to 14 July 2021. The Central Bank continued to absorb foreign exchange from the market on a net basis to build up gross official reserves through non-borrowed sources during May 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 14 Jul) Depreciation (-)/ Appreciation (+)
US dollar	+0.6%	-2.6%	-6.7%
Euro	+2.6%	-11.2%	-2.6%
Pound sterling	-2.8%	-6.2%	-7.9%
Japanese yen	-1.0%	-7.5%	-0.04%
Australian dollar	+1.3%	-11.4%	-3.7%
Indian rupee	+2.6%	0.0%	-4.9%

Source: CBSL