

Sri Lanka's Apparel Export Slump

CHALLENGES, TRENDS AND
THE ROAD AHEAD



Garment Exports Fell Again in August



↓ -7.4%

Garment Exports, Aug 2026

US\$ 434.8M vs US\$ 469.6M a year earlier



↓ -6.3%

Garments Export, Jan - Aug 2026

US\$ 3,108.3M, Jan–Aug



↓ -6.76%

Apparel & Textiles, Export, Jan - Aug 2026

US\$ 3,344.0 Mn, Jan–Aug.



↑ +4.26%

Total Exports (Goods + Services) (Jan – Aug cumulative change) YoY

Total Exports surpass US\$12.01 Bn in first eight months (Jan – August cumulative period) of 2026



Falling **garment and apparel exports** highlight ongoing sector challenges.



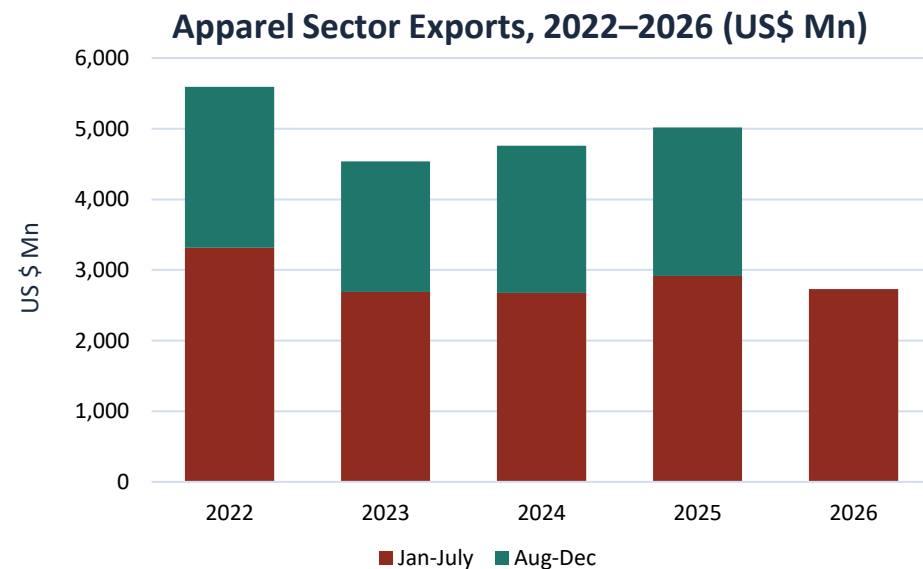
Market diversification, cost **competitiveness** and policy **support** remain critical.



Total exports showed renewed momentum, growing by **4.26%** in Jan to August cumulative period.

A US\$5 Billion Sector that Keeps Missing Targets

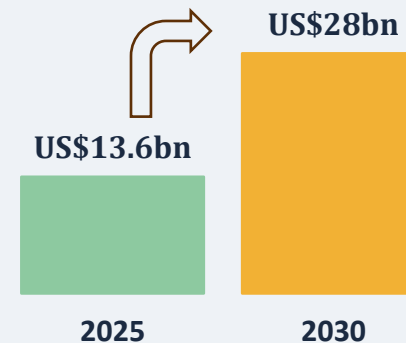
2025: Textile & Apparel Export, Target vs Actual



More than 1/3

of merchandise export earnings come from the apparel sector

2030 Goal: US\$28bn Merchandise Exports



~15.5%

growth needed every year to reach the 2030 goal*

Note: Apparel exports represent one component of Sri Lanka's total merchandise exports.

**CAGR 2025 - 2030, US\$13.6bn to US\$28bn*

2026 Monthly Apparel Exports by Market (Jan-July) (US\$ million)

Total Export				US				UK			
Month	2025 (US\$ Mn)	2026 (US\$ Mn)	YoY Change (%)	Month	2025 (US\$ Mn)	2026 (US\$ Mn)	YoY Change (%)	Month	2025 (US\$ Mn)	2026 (US\$ Mn)	YoY Change(%)
January	437.07	425.44	-2.66%	January	169.75	165.11	-2.73%	January	61.57	61.71	0.23%
February	407.93	361.20	-11.46%	February	153.11	147.70	-3.53%	February	54.85	51.74	-5.67%
March	467.07	417.92	-10.52%	March	171.79	151.42	-11.86%	March	77.13	64.82	-15.96%
April	344.40	328.15	-4.72%	April	121.89	117.67	-3.46%	April	53.94	44.82	-16.91%
May	365.08	394.14	7.96%	May	129.99	149.96	15.36%	May	51.71	52.16	0.87%
June	439.39	385.23	-12.33%	June	164.39	158.57	-3.54%	June	67.33	46.96	-30.25%
July	455.16	416.25	-8.55%	July	178.26	167.18	-6.22%	July	56.12	52.35	-6.72%
Total (Jan-July)	2,916.10	2,728.33	-6.44%	Total (Jan-July)	1089.18	1057.61	-2.90%	Total (Jan-July)	422.65	374.56	-11.38%
EU				Others							
Month	2025 (US\$ Mn)	2026 (US\$ Mn)	YoY Change (%)	Month	2025 (US\$ Mn)	2026 (US\$ Mn)	YoY Change (%)				
January	129.49	126.99	-1.93%	January	76.26	71.63	-6.07%				
February	120.69	97.18	-19.48%	February	79.28	64.58	-18.54%				
March	142.11	139.70	-1.70%	March	76.04	61.98	-18.49%				
April	112.96	103.04	-8.78%	April	55.61	62.62	12.61%				
May	121.72	121.35	-0.30%	May	61.66	70.67	14.61%				
June	142.92	117.59	-17.72%	June	64.75	62.11	-4.08%				
July	145.22	133.00	-8.41%	July	75.56	63.72	-15.67%				
Total (Jan-July)	915.11	838.85	-8.33%	Total (Jan-July)	489.16	457.31	-6.51%				
								*August market breakdown not yet available.			
								Source: Joint Apparel Association Forum (JAAF)			



UK Market Access: DCTS Creates Opportunities for Sri Lankan Apparel



Enhanced Preferences: Sri Lanka benefits from the UK's Developing Countries Trading Scheme (DCTS), which provides zero tariffs on 92% of product lines.

Improved Rules of Origin: Effective 1 January 2026, more flexible garment rules of origin make it easier for eligible Sri Lankan apparel exports to qualify for preferential tariffs.

Eligibility Conditions: Duty-free access depends on the product's tariff classification and compliance with applicable rules of origin.

Market Reality: UK Apparel Exports Declined

Sri Lanka's apparel exports to the UK fell by **11.15% in January - August 2026**, despite preferential market access under DCTS.

Possible contributing factors

- **Weak external demand:** Challenging conditions in major export markets.
- **Competitive pressure:** Preferential tariffs alone may not be enough to secure new orders.
- **Time needed to realise DCTS benefits:** Revised rules of origin took effect in January 2026, and their impact on exports may take time to emerge.

4

Outlook: DCTS creates an opportunity to improve competitiveness, but recovery depends on stronger demand, competitive pricing, and effective use of the revised rules of origin.

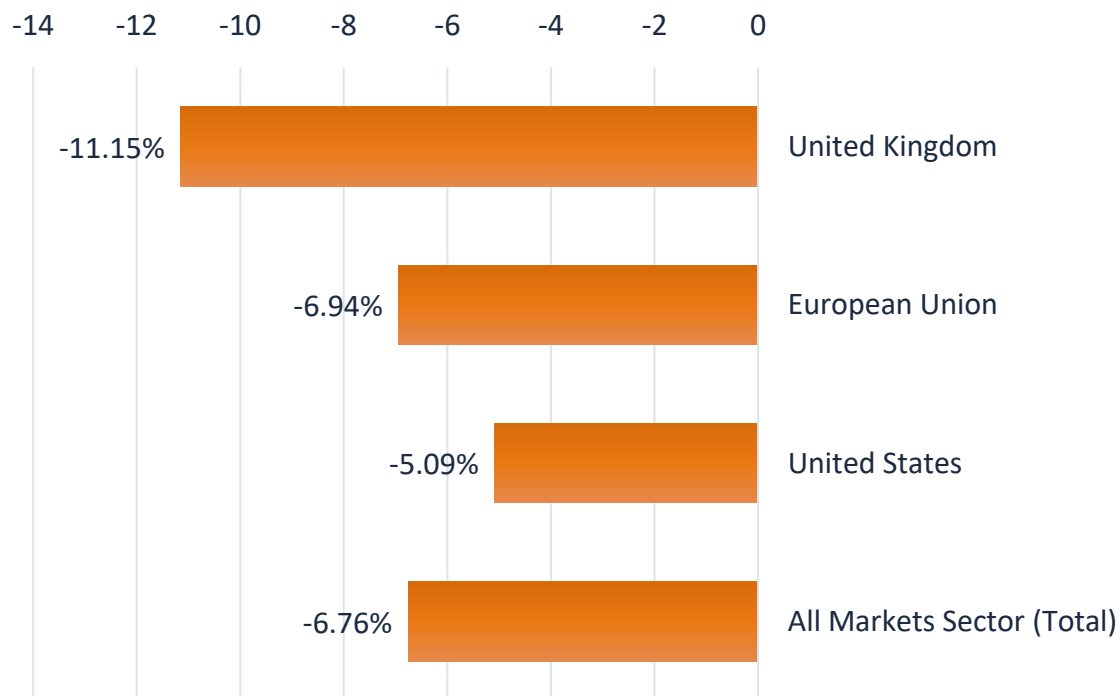
Note: UK apparel export figures are sourced from the EDB (Export Development Board).



Sri Lanka Apparel Exports Remain under Pressure

Export earnings fell in every major market during January to August 2026.

Export earnings from the Apparel and Textiles sector,
Jan - Aug 2026 (% YoY)



Sector Contraction

Apparel and textile export earnings fell 6.76% YoY to US\$3,344.0 Mn during Jan - Aug 2026.



US and EU Demand Weakened

Exports to the United States declined 5.09%, while exports to the European Union fell 6.94%.



United Kingdom also Declined

Exports to the UK fell 11.15%, the largest decline among the three key markets shown.



Key Driver

Subdued demand in major export markets contributed to the overall contraction amid challenging global conditions.



The US Tariff Path Has Changed Repeatedly

Three shifts since August 2025 have left exporters and buyers without a stable rate.

1

Aug 2025

30% → 20%

30% announced in the July 2025 letter, the 31 July executive order set 20%, effective 7 August.

2

Feb 2026

Rollback

Supreme Court struck down the reciprocal-tariff framework. A temporary 10% Section 122 tariff (150 days) replaced it.

3

24 Jul 2026

+10%

Section 122 expires, Section 301 forced-labour duties take effect. Sri Lanka pays the lower 10% tier, open to economies that adopted a forced-labour import ban.

4

As of 11 Oct 2026

26.5 - 29.9%

Built as MFN apparel duty (approx.16.5 - 19.9%) + 10% Section 301. A permanent deal is approx.90% negotiated but unsigned.



Four Reasons Sri Lanka Is Underperforming

Policy uncertainty, rival access, early export declines and domestic competitiveness.



REASON 1

US tariff policy remains uncertain

The US tariff framework underwent several changes during 2026, including a new Section 301 action following investigations, consultations and public hearings. The evolving policy environment creates uncertainty for exporters and US buyers when pricing and sourcing.



REASON 2

Rivals due to receive reduced US tariffs

USTR plans quotas letting Bangladesh, Cambodia, Indonesia and Malaysia ship set volumes of apparel/textiles at reduced Section 301 rates (not yet in force). Sri Lanka is excluded, a potential disadvantage.



REASON 3

Exports already show the impact

Apparel & textile exports (EDB) fell 6.1% YoY to US\$2.44bn in H1 2026 (Jan to Jun) with exports to the US declining 2.35%, highlighting the sector's vulnerability to weaker demand and changing trade conditions.



REASON 4

Domestic competitiveness

Need for innovation, value addition, productivity improvements, market diversification and stronger trade facilitation to strengthen Sri Lanka's apparel competitiveness.

Listed Apparel Companies : Latest Financial Results

TEEJAY LANKA PLC (TJL)				
LKR Mn	YOY		Quarterly YoY	
	2025	2026	FY26 Q1	FY27 Q1
Revenue	67,036.05	60,044.40	15,768.80	15,636.80
Gross Profit	7,840.63	4,990.00	1,252.99	313.74
EBIT	4,550.60	442.3	450.75	-674.53
Net Profit	2,793.02	53.1	207.27	-479.9
Gross Profit Margin	11.70%	8.31%	7.95%	2.01%
Net Profit Margin	4.17%	0.09%	1.31%	-3.07%
Average Total Assets	55,443.64	57,593.30	56,359.24	60,211.70
Average Total Equity	30,829.83	31,963.10	30,717.87	32,474.50
ROA	5.04%	0.09%	0.37%*	-0.80%**
ROE	9.06%	0.17%	0.67%*	-1.48%**

HAYLEYS FABRIC PLC (MGT)				
LKR Mn	YoY		Quarterly YoY	
	2025	2026	FY26 Q1	FY27 Q1
Revenue	44,129.29	38,265.10	10,472.55	10,895.10
Gross Profit	7,823.53	5,699.50	1,834.56	1,771.80
EBIT	4,237.58	1,784.30	790.81	459.1
Net Profit	2,126.20	641.9	393.46	168.6
Gross Profit Margin	17.73%	14.89%	17.52%	16.26%
Net Profit Margin	4.82%	1.68%	3.76%	1.55%
Average Total Assets	35,597.20	36,024.00	37,286.27	38,310.46
Average Total Equity	10,681.75	11,888.10	11,294.23	12,619.02
ROA	5.97%	1.78%	1.06%*	0.44%**
ROE	19.90%	5.40%	3.48%*	1.34%**

*As at 30th June 2025

**As at 30th June 2026



Outlook: What the Full Picture Says

No quick recovery: pressure on volumes and margins is likely to last until the US deal is final.



↓ **-6.76%**

The slump

Apparel & textile exports, Jan - Aug 2026 (US\$3,344.0M). 2025's US\$5.3bn missed the US\$8bn target.



-5% to - 11%

The markets

US, EU and UK all fell. India and Pakistan (+30.13% in Aug) are the only consistent growth.



26.5 - 29.9%

The tariffs

Effective US apparel tariff burden. Rivals are set to receive special US access; Sri Lanka's deal is unfinished access.



The companies

Both companies reported weaker financial performance in FY2026 compared with FY2025. In FY2027 Q1, Teejay Lanka's profitability deteriorated sharply, recording a net loss and negative margins. Hayleys Fabric remained profitable, although revenue growth was accompanied by lower profits.



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