

# SRI LANKA

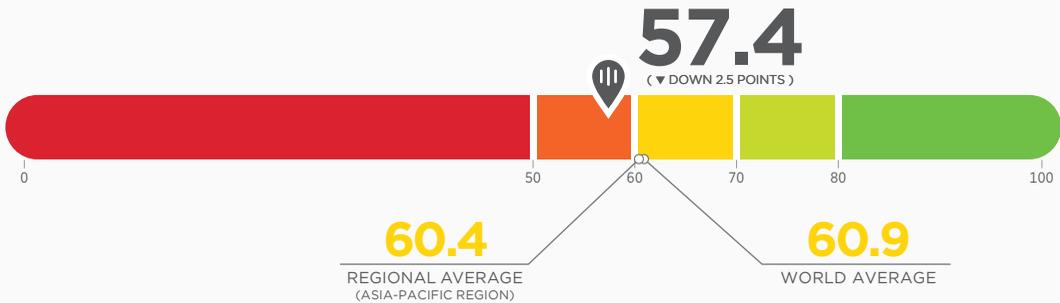


WORLD RANK: **112** | REGIONAL RANK: **25**  
 ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

Sri Lanka's economy has expanded at an average rate of about 6 percent over the past five years. The country has made a notable economic transition from fragility to relative stability. Political reconciliation and economic transformation have been strengthened by measures that support long-term development and competitiveness.

Economic reforms undertaken to improve Sri Lanka's macroeconomic stability and potential for growth include strengthening the management of public finance and structural reforms to foster a more dynamic private sector. However, a weak judiciary continues to undermine property rights, and the perceived level of corruption is debilitating.

## ECONOMIC FREEDOM SCORE

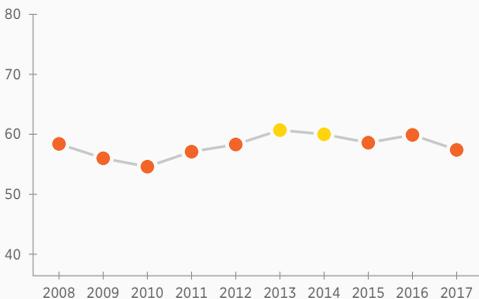


**NOTABLE SUCCESSES:**  
 Tax Policy, Trade Freedom, and Business Freedom

**CONCERNS:**  
 Rule of Law, Fiscal Health, and Investment Freedom

**OVERALL SCORE CHANGE SINCE 2013:**  
 -3.3

## FREEDOM TREND



## QUICK FACTS

**POPULATION:**  
 21.1 million

**GDP (PPP):**  
 \$223.0 billion  
 5.2% growth in 2015  
 5-year compound annual growth 6.1%  
 \$10,566 per capita

**UNEMPLOYMENT:**  
 4.7%

**INFLATION (CPI):**  
 0.9%

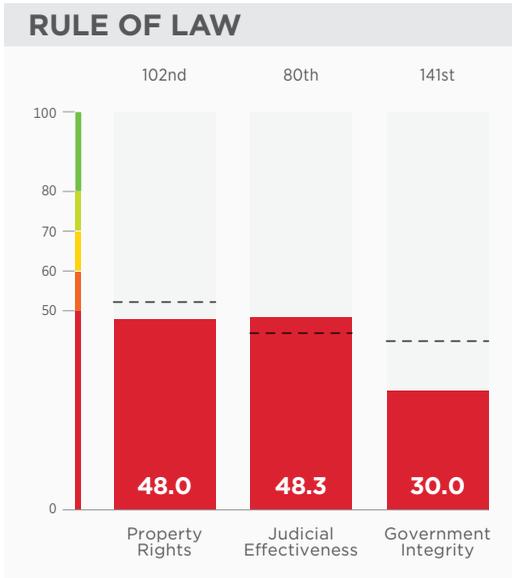
**FDI INFLOW:**  
 \$681.2 million

**PUBLIC DEBT:**  
 74.4% of GDP

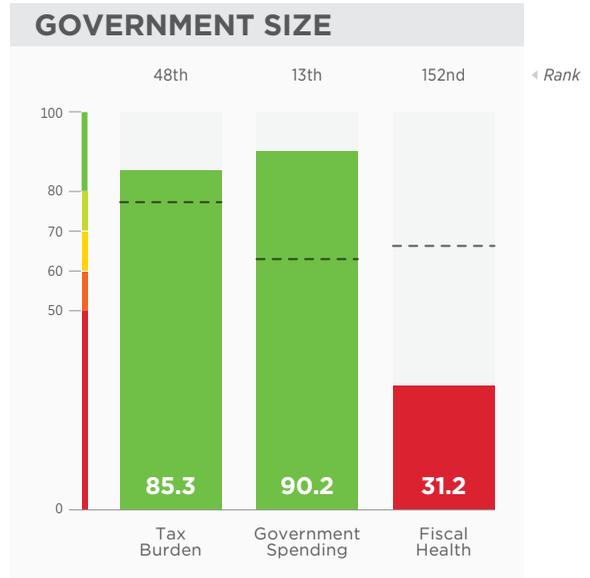
2015 data unless otherwise noted. Data compiled as of September 2016

**BACKGROUND:** President Mahinda Rajapaksa was voted out of office in January 2015. Prime Minister Maithripala Sirisena, who ran against him on pledges to restore parliamentary democracy and rein in corruption, formed a coalition government with the opposition United National Party (UNP) and reinstated presidential term limits. Parliamentary elections in August 2015 brought UNP leader Ranil Wickremesinghe to power as the new prime minister. Sirisena and Wickremesinghe have pledged to work together for ethnic reconciliation and in September 2015 co-sponsored a U.N. Human Rights Council resolution acknowledging that war crimes were committed by both the government and the Liberation Tigers of Tamil Eelam during the civil war that ended in 2009.

# 12 ECONOMIC FREEDOMS | SRI LANKA



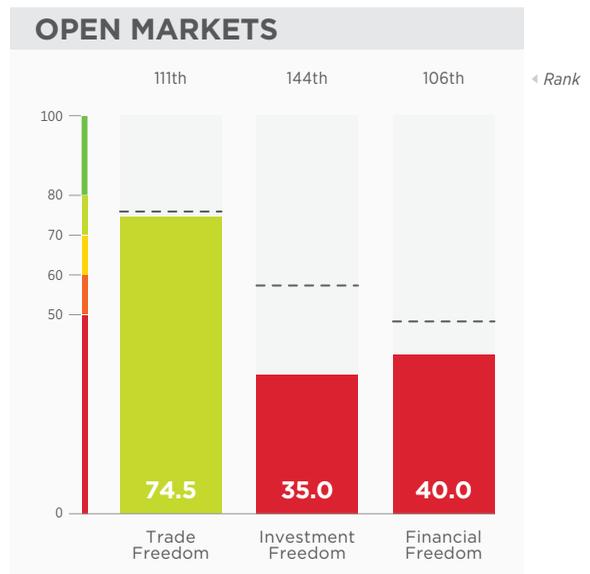
Secured interests in property are generally recognized, and there is a fairly reliable registration system for recording private property, but many investors claim that protection can be flimsy. Judicial independence has improved under the new administration. Although corruption remains a concern, steps were taken in 2015 to strengthen enforcement of existing safeguards and uphold the current legal and administrative framework.



The top personal income tax rate is 24 percent, and the top corporate tax rate is 28 percent. Other taxes include a value-added tax. The overall tax burden equals 10.7 percent of total domestic income. Government spending has amounted to 18.1 percent of total output (GDP) over the past three years, and budget deficits have averaged 6.0 percent of GDP. Public debt is equivalent to 74.4 percent of GDP.



The business start-up process has been streamlined, and the number of licensing requirements has been reduced. Because the labor market lacks efficiency, there is an imbalance between labor supply and demand. In 2016, the IMF recommended that the government phase out some of its extensive system of price controls and subsidies that distort most sectors of the economy. The government's plan to privatize some industries faces public opposition.



Trade is moderately important to Sri Lanka's economy; the value of exports and imports taken together equals 48 percent of GDP. The average applied tariff rate is 5.3 percent. Investment in some sectors of the economy is restricted, and state-owned enterprises distort the economy. The financial sector remains underdeveloped. Nonperforming loans remain a problem in the banking system, and the allocation of credit is subject to state influence.