

SRI LANKA

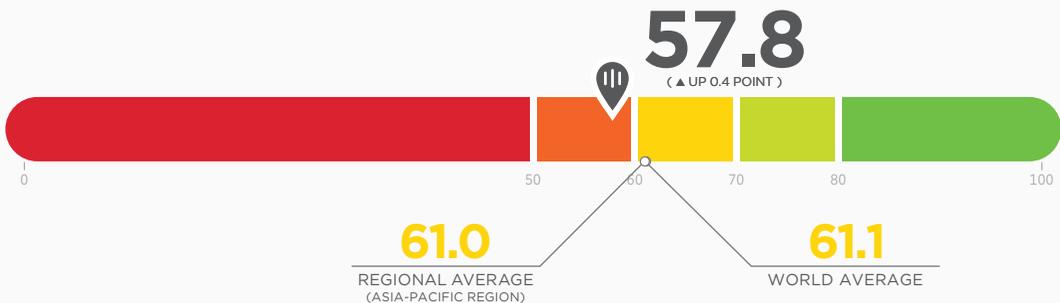
WORLD RANK: **111** | REGIONAL RANK: **25**

ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

Sri Lanka's economic freedom score is 57.8, making its economy the 111th freest in the 2018 *Index*. Its overall score has increased by 0.4 point, with improvements in **investment freedom**, **business freedom**, and **judicial effectiveness** outweighing a lower score for **fiscal health**. Sri Lanka is ranked 25th among 43 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

To maintain the steady economic expansion that Sri Lanka has enjoyed in recent years while maintaining macroeconomic stability, the government must simultaneously service its high level of debt out of diminished tax receipts while reducing the bloated public sector and lowering historically high budget deficits. That will mean even better management of public finances and additional structural reforms to improve the business climate. However, a weak judiciary continues to undermine property rights, and high levels of perceived corruption are debilitating.

ECONOMIC FREEDOM SCORE

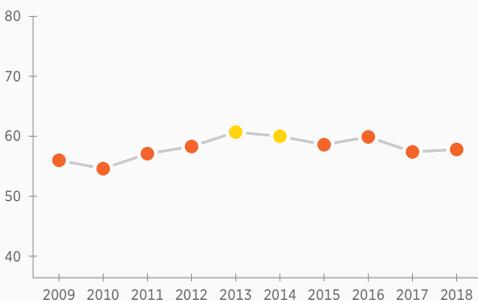


NOTABLE SUCCESSES:
Tax Policy, Business Freedom, and Trade Freedom

CONCERNS:
Fiscal Health and Rule of Law

OVERALL SCORE CHANGE SINCE 2014:
-2.2

FREEDOM TREND



QUICK FACTS

POPULATION:
21.3 million

GDP (PPP):
\$260.6 billion
4.3% growth in 2016
5-year compound annual growth 5.3%
\$12,262 per capita

UNEMPLOYMENT:
5.0%

INFLATION (CPI):
3.7%

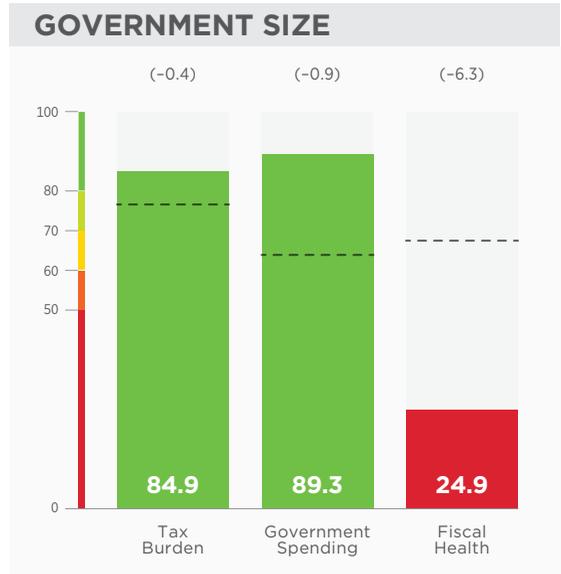
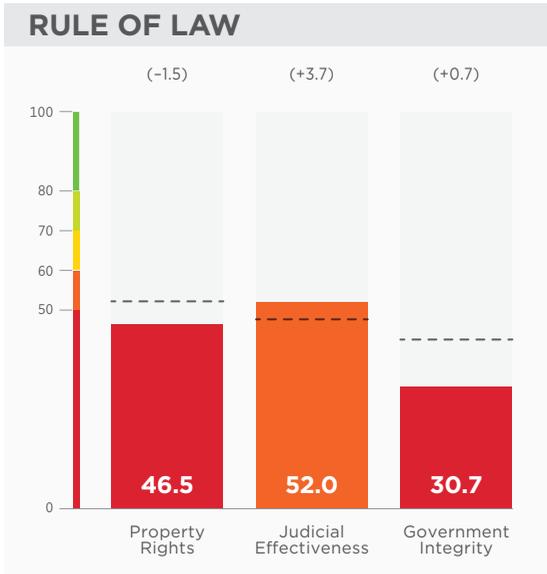
FDI INFLOW:
\$898.1 million

PUBLIC DEBT:
77.3% of GDP

2016 data unless otherwise noted. Data compiled as of September 2017

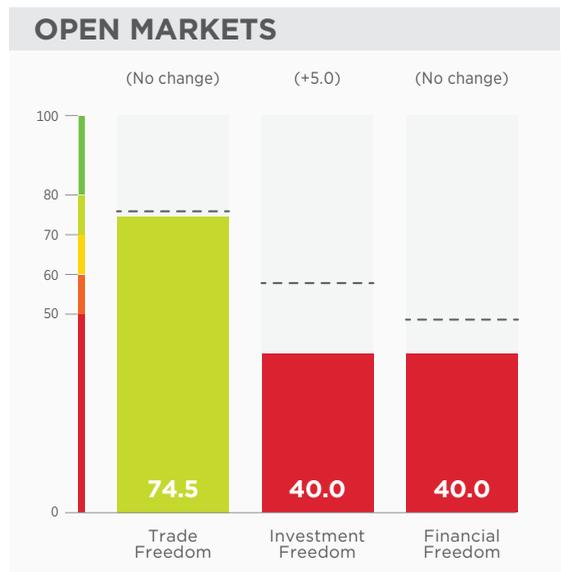
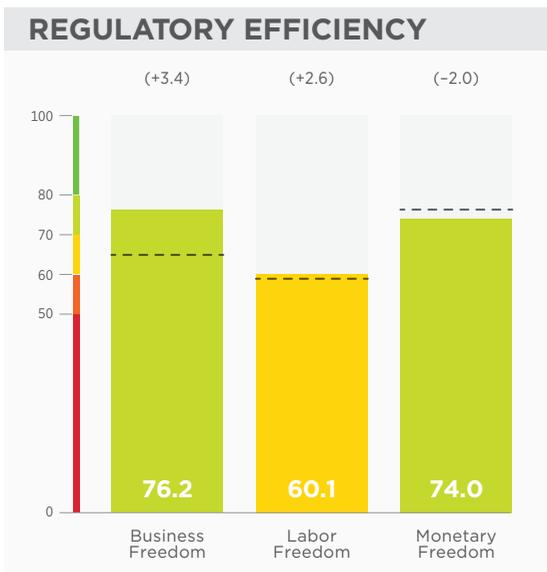
BACKGROUND: Ceylon gained independence from the U.K. in 1948; its name was changed to Sri Lanka in 1972. President Mahinda Rajapaksa was voted out of office in January 2015. Prime Minister Maithripala Sirisena, who ran on pledges to restore parliamentary democracy and rein in corruption, formed a coalition government with the opposition United National Party and reinstated presidential term limits. Parliamentary elections brought UNP leader Ranil Wickremesinghe to power as prime minister in August 2015. Sirisena and Wickremesinghe have pledged to work for ethnic reconciliation and in September 2015 cosponsored 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.

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Although the government has appropriated some land in the North and East for economic development, secured interests in property are generally recognized. Corruption and politicization remain common in the lower courts, but overall judicial independence has improved. Corruption remains a concern, and the work of an independent anticorruption commission has generated political controversy.

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 12.1 percent of total domestic income. Over the past three years, government spending has amounted to 18.9 percent of total output (GDP), and budget deficits have averaged 6.3 percent of GDP. Public debt is equivalent to 77.3 percent of GDP.



A streamlined business startup process has improved an already efficient regulatory system. A rigid legal framework makes it difficult for companies to reduce their workforce, and the cost of dismissing a worker is one of the highest in the world. The government maintains an extensive system of price controls and subsidies that distort most sectors of the economy while also subsidizing state-owned enterprises and housing.

Trade is significant for Sri Lanka's economy; the combined value of exports and imports equals 51 percent of GDP. The average applied tariff rate is 5.3 percent. Nontariff barriers impede trade. Government openness to foreign investment is above average. Nonperforming loans remain a problem in the banking system, and the state continues to influence the allocation of credit.