SRI LANKA

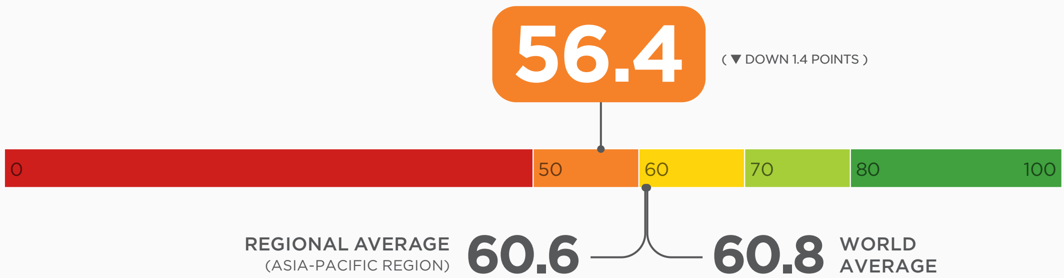
WORLD RANK: **115** | REGIONAL RANK: **25**

ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

Sri Lanka's economic freedom score is 56.4, making its economy the 115th freest in the 2019 *Index*. Its overall score has decreased by 1.4 points, with a steep decline in the score for **judicial effectiveness** outweighing an improvement in **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.

Although economic expansion continues, political and economic uncertainties worry investors. Sri Lanka's sizable external debt and twin current and fiscal account deficits signal very weak macroeconomic fundamentals. To maintain growth, the government must service high levels of debt out of diminished tax receipts while simultaneously reducing the bloated public sector and lowering historically high budget deficits. That requires better management of public finances and additional structural reforms to improve the business climate. A weak judiciary continues to undermine property rights, and perceived corruption is debilitatingly high.

ECONOMIC FREEDOM SCORE

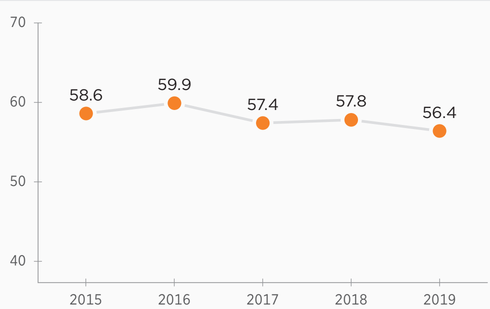


RELATIVE STRENGTHS:
Government Spending and Tax Burden

HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995):
–4.2

CONCERNS:
Government Integrity and Fiscal Health

FREEDOM TREND



QUICK FACTS

POPULATION:
21.4 million

GDP (PPP):
$274.7 billion
3.1% growth in 2017
5-year compound annual growth 4.2%
$12,811 per capita

UNEMPLOYMENT:
4.1%

INFLATION (CPI):
6.5%

FDI INFLOW:
$1.4 billion

PUBLIC DEBT:
79.4% of GDP

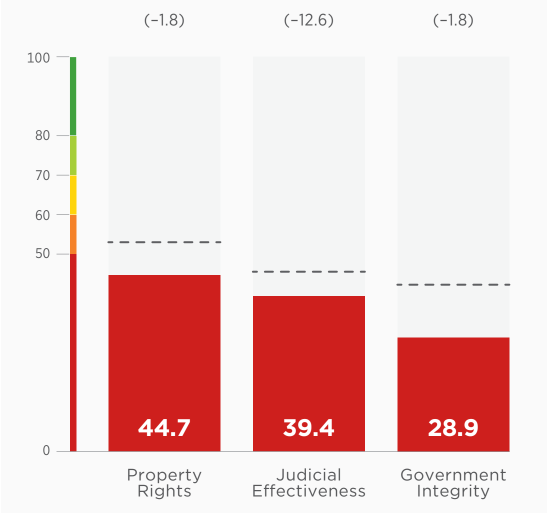
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: The island nation of Ceylon off the southeast coast of India gained independence from the United Kingdom in 1948; its name was changed to Sri Lanka in 1972. President Mahinda Rajapaksa, elected in 2005, was voted out of office in 2015 after overseeing a major expansion of Chinese influence in the country. President Maithripala Sirisena was elected in 2015 on pledges to restore parliamentary democracy, rein in corruption, and review infrastructure deals signed with China. As of October 2018, Sirisena suspended parliament and appointed former President Rajapaksa as prime minister, sparking a constitutional crisis. The economy is based on exports of processed commodities and garments.

— — WORLD AVERAGE | ONE-YEAR SCORE CHANGE IN PARENTHESES

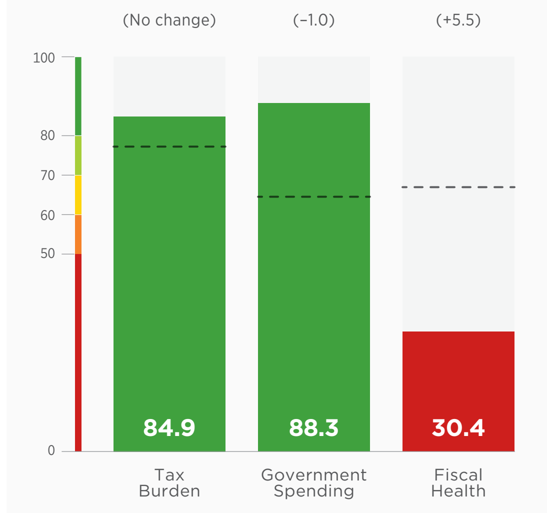
12 ECONOMIC FREEDOMS | SRI LANKA

RULE OF LAW



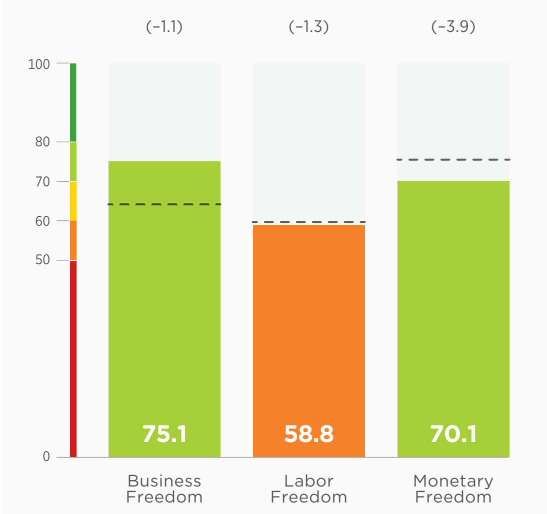
Secured interests in property are generally recognized, but many investors doubt the government's commitment to protecting their rights. Political interference is still a problem in the lower courts. Former President Rajapaksa massively increased public debt through nontransparent "One Belt, One Road" deals with China. Facilitation payments, cronyism, and other forms of government corruption persist.

GOVERNMENT SIZE



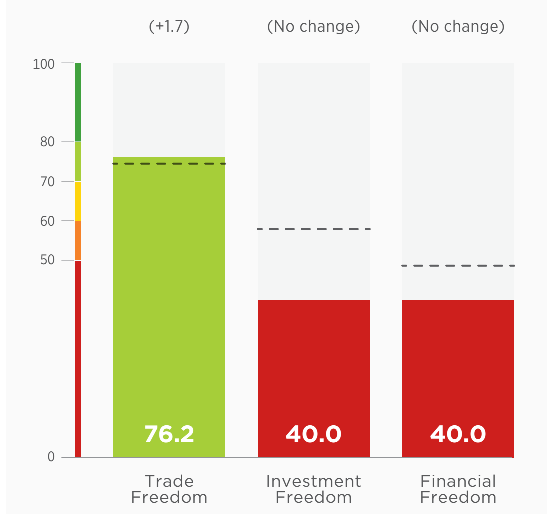
The top personal income tax rate is 24 percent, and the top corporate tax rate is 28 percent. Other taxes include a value-added tax. The overall tax burden equals 12.3 percent of total domestic income. Over the past three years, government spending has amounted to 19.8 percent of the country's output (GDP), and budget deficits have averaged 6.0 percent of GDP. Public debt is equivalent to 79.4 percent of GDP.

REGULATORY EFFICIENCY



The business start-up process has been streamlined, with licensing requirements reduced in recent years, but the overall regulatory environment remains hampered by the lack of transparency and consistency. The labor market lacks efficiency, perpetuating imbalances between labor supply and demand in various sectors. The government has reduced subsidies for fuel but has introduced new fertilizer subsidies among others.

OPEN MARKETS



The combined value of exports and imports is equal to 51.1 percent of GDP. The average applied tariff rate is 4.4 percent. As of June 30, 2018, according to the WTO, Sri Lanka had 19 nontariff measures in force. Investment in several sectors of the economy remains restricted, and state-owned enterprises distort the economy. About 73 percent of adult Sri Lankans have access to an account with a formal banking institution.