

# SRI LANKA

WORLD RANK: **112** | REGIONAL RANK: **24**

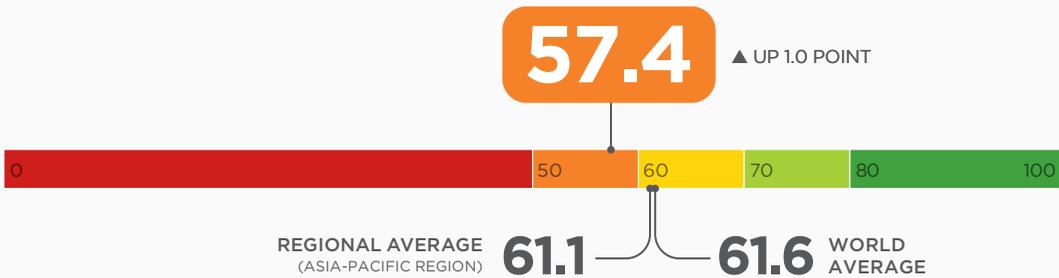
ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

Sri Lanka's economic freedom score is 57.4, making its economy the 112th freest in the 2020 *Index*. Its overall score has increased by 1.0 point due to a higher **fiscal health** score. Sri Lanka is ranked 24th among 42 countries in the Asia-Pacific region, and its overall score is well below the regional and world averages.

The economy of Sri Lanka has been rated mostly unfree for the sixth year in a row. Economic growth during that time was strong, however, reflecting a peace dividend that helped the transition from a predominantly rural-based economy toward a more urbanized economy oriented around manufacturing and services.

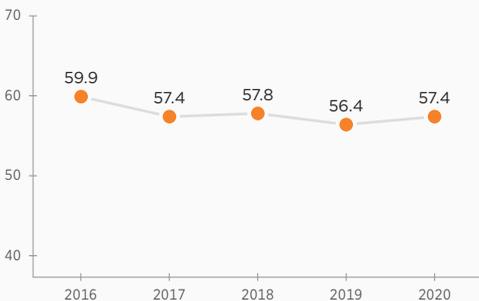
Nine of Sri Lanka's 12 *Index* indicators are below global average levels. For economic freedom to expand, the government will need to prioritize anticorruption efforts, reduce debt, and reform the judiciary to improve its independence and integrity.

## ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): -3.2

## RECENT FREEDOM TREND



## QUICK FACTS

**POPULATION:**  
21.7 million

**GDP (PPP):**  
\$290.6 billion  
3.0% growth in 2018  
5-year compound annual growth 4.2%  
\$13,397 per capita

**UNEMPLOYMENT:**  
4.4%

**INFLATION (CPI):**  
4.3%

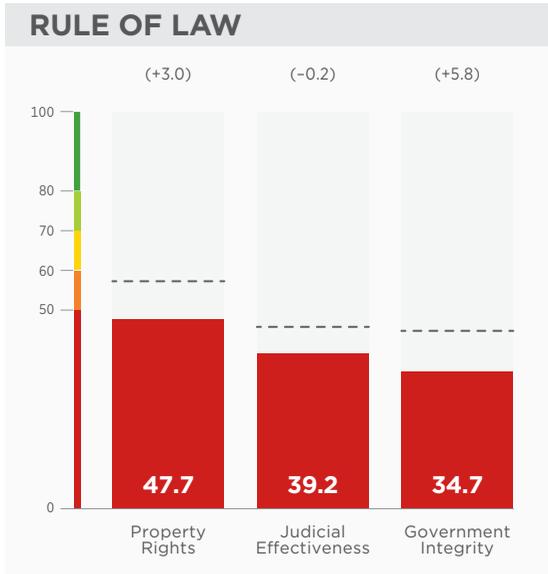
**FDI INFLOW:**  
\$1.6 billion

**PUBLIC DEBT:**  
84.1% of GDP

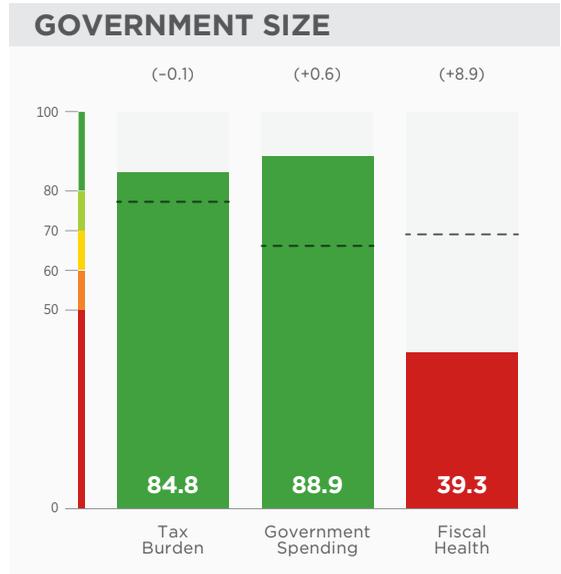
2018 data unless otherwise noted. Data compiled as of September 2019

**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. Maithripala Sirisena was elected president in 2015 on pledges to restore parliamentary democracy, rein in corruption, and review infrastructure deals signed with China. In 2018, Sirisena sparked a constitutional crisis when he attempted to suspend parliament and appoint a former president as prime minister. The crisis was resolved when Sirisena's actions were rejected by the country's parliament and Supreme Court. Social unrest caused by religious and ethnic tensions continues to threaten political stability. The economy is based on exports of processed commodities and garments.

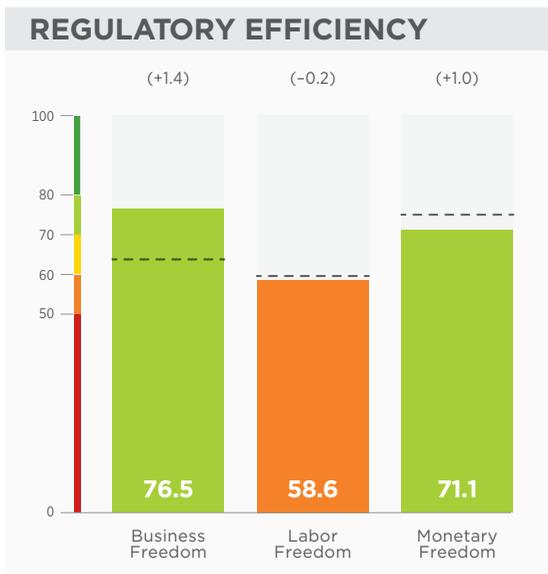
# 12 ECONOMIC FREEDOMS | SRI LANKA



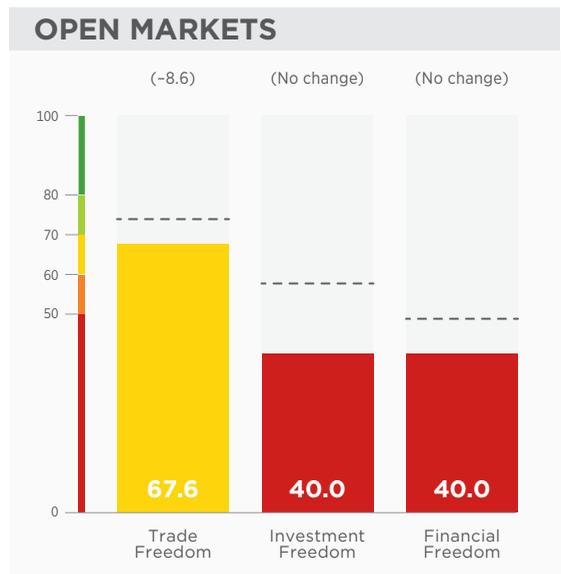
Secured interests in property are generally acknowledged, but enforcement can be difficult. A reliable private property registration system is undermined by fraud and forged documents. Political interference with and intimidation of the judiciary have abated somewhat under the Sirisena administration. The government's efforts to fight corruption have produced few convictions. Corruption remains a problem in the judiciary, public procurement, and customs.



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 12.6 percent of total domestic income. Government spending has amounted to 19.2 percent of the country's output (GDP) over the past three years, and budget deficits have averaged 5.4 percent of GDP. Public debt is equivalent to 84.1 percent of GDP.



A series of reforms, including improvements in dealing with construction permits, registering property, paying taxes, and enforcing contracts, have been implemented in the past year. The bloated civil service contributes to a lack of efficiency in the labor market. There is an imbalance between labor supply and demand in a number of sectors. The government has reduced fuel subsidies but maintains a complex web of energy, water, and fertilizer subsidies.



The total value of exports and imports of goods and services equals 52.9 percent of GDP. The average applied tariff rate is 8.7 percent, and 19 nontariff measures further undermine trade flows. Burdensome bureaucracy hinders much-needed dynamic growth in private investment. Nonperforming loans remain a problem in the banking system, and the state continues to influence the allocation of credit.