

SRI LANKA

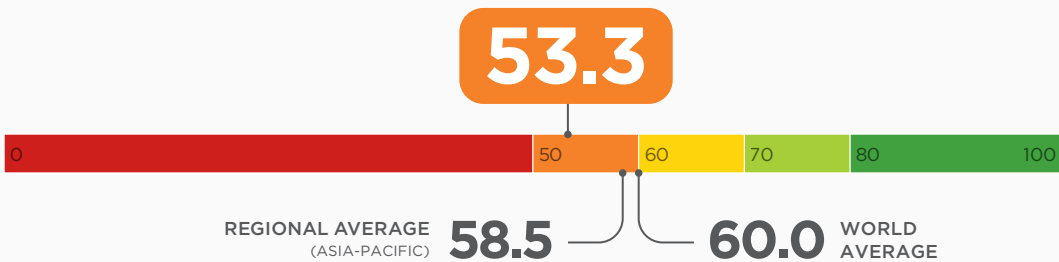
WORLD RANK: **132** | REGIONAL RANK: **28**
 ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

Sri Lanka's economic freedom score is 53.3, making its economy the 132nd freest in the 2022 *Index*. Sri Lanka is ranked 28th among 39 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

Economic growth in Sri Lanka slowed from 2017 through 2019, turned negative in 2020, and recovered in 2021. During those same five years, economic freedom has declined. Driven lower by reductions in **fiscal health** and **business freedom**, Sri Lanka has recorded a 4.1-point overall loss of economic freedom since 2017 and has fallen to the lower half of the "Mostly Unfree" category. Rule of law has improved somewhat, but **investment freedom** and **financial freedom** are weak.

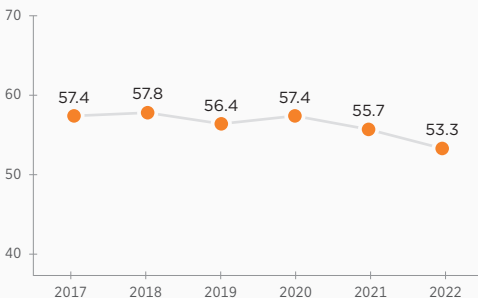
IMPACT OF COVID-19: As of December 1, 2021, 14,372 deaths had been attributed to the pandemic in Sri Lanka, and the government's response to the crisis ranked 49th among the countries included in this *Index* in terms of its stringency. The economy contracted by 3.6 percent in 2020.

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): -7.3

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
21.9 million

GDP (PPP):
\$289.9 billion
-3.6% growth in 2020
5-year compound annual growth 2.0%
\$13,215 per capita

UNEMPLOYMENT:
4.8%

INFLATION (CPI):
4.6%

FDI INFLOW:
\$434.0 million

PUBLIC DEBT:
100.1% of GDP

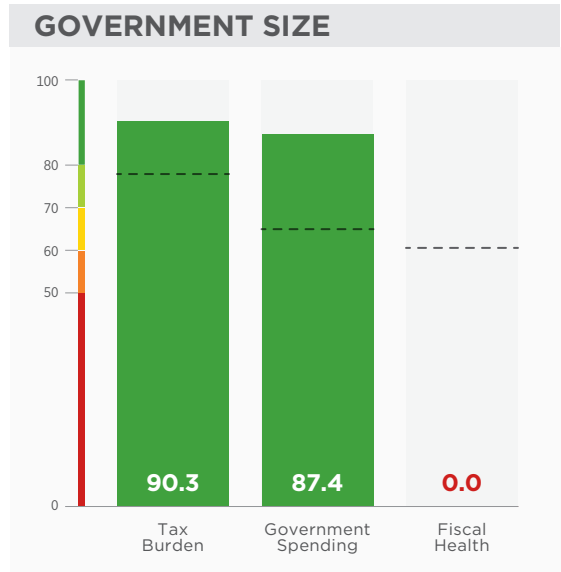
2020 data unless otherwise noted. Data compiled as of September 2021

BACKGROUND: The island nation of Ceylon off the southeast coast of India gained independence from the United Kingdom in 1948 and changed its name to Sri Lanka in 1972. Following a constitutional crisis in 2018 and the deadly 2019 Easter bombings by Islamist terrorists, former Defense Secretary Gotabaya Rajapaksa was elected president in 2019. A Sinhalese nationalist, Rajapaksa appointed his brother, former President Mahinda Rajapaksa, to serve as prime minister. The president's party won a landslide victory in the 2020 parliamentary elections. The country faces ongoing, albeit diminished, religious and ethnic tensions between its Buddhist Sinhalese majority and Hindu Tamil minority. The economy is based on exports of processed commodities and garments.

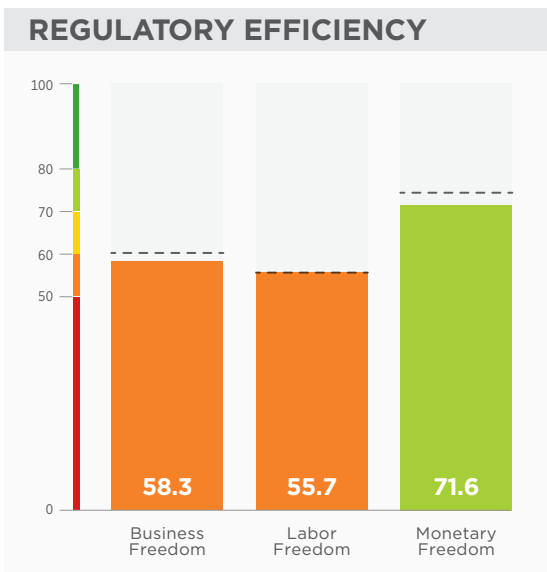
12 ECONOMIC FREEDOMS | SRI LANKA



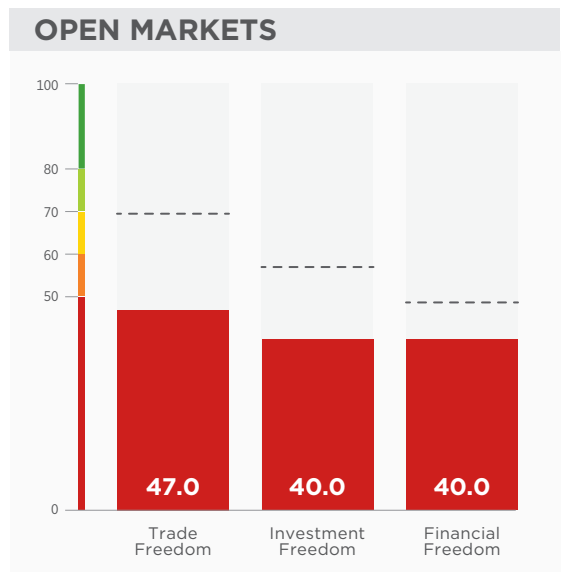
Secured interests in real property are legally protected, but enforcement can be weak. The registration system is reliable but fraught with fraud and forged documents. Although the judiciary is independent, corruption and politicization still plague the lower courts. Examples include the need to pay bribes to avoid red tape, the solicitation of bribes by officials, nepotism, and cronyism. The public procurement sector is especially vulnerable.



The top individual income tax rate is 18 percent, and the top corporate tax rate is 24 percent. Other taxes include a value-added tax. The overall tax burden equals 8.1 percent of total domestic income. Government spending has amounted to 20.5 percent of total output (GDP) over the past three years, and budget deficits have averaged 8.5 percent of GDP. Public debt is equivalent to 100.1 percent of GDP.



Power cuts continue to threaten business viability in Sri Lanka. There is a labor shortage. Remittances increased to \$7.1 billion in 2020 because of the collapse of channels for the informal transfer of money during the pandemic. Facing declining tax revenues, lack of access to foreign capital, and deteriorating balance of payments, the central bank printed and injected unprecedented levels of cash into the economy.



Sri Lanka has six preferential trade agreements in force. The trade-weighted average tariff rate is 19.0 percent, and 19 non-tariff measures are in effect. Other regulatory barriers 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.