

Sri Lanka

General Economic Information & Trends

Compiled by: Trade Division

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Analysis

Among Sri Lanka's economic strengths the following can be listed: 1) Human resources: relative to its per capita income level, human development indices in terms of education and health are very high at approx. 92.6%. 2) Location: SL is strategically located on the trade routes from Europe/Middle East to East Asia. 3) A decisive transition from an authoritative political system to a more Democratic one must be further consolidated. 4) Government ambition: Economic development is the number one priority and to increase exports to Europe under the GSP plus. Sri Lanka – according to the Prime Minister's vision is creating 1 Million jobs within the next 5 years and to emerge as the "Wonder of Asia", raising its per capita income from USD 2400 in 2010 to USD 4000 in 2016. Major investments in ports, airports, roads, energy production and the tourism infrastructure are being implemented. Two IT parks are planned in Palkekele Export Processing Zone and the Achchuveli Industrial Zone in Jaffna.

On the risk side some issues have to be flagged. The new government promises transparent investment laws to foster foreign direct investments under a stagnating and sophisticated legal and regulatory framework. The administrative arm of government has a tendency to micro-managing the economy through ad-hoc incentives, price control measures etc. It is important to overcome this interventionist mindset. The fight against corruption has been launched with an independent Anti-Corruption Authority. Regional economic integration of Sri Lanka is ongoing but it must be focused on adding to the global value chain. It must also overcome considerable opposition within Sri Lanka to further liberalization in economic relations. For example Sri Lanka has been unsuccessfully negotiating a FTA with India for over a decade due to internal public opposition.

2015 was a stable year for Sri Lanka economically. After a revision in statistical tabulation GDP growth reduced from 7.4% in 2014 to 6.1% in 2015. Inflation continued to be kept well under control (2015: 3% annual average) while the budget deficit continued to be worrying at 6.7% of GDP in 2015 growing from 5.7% in 2014. Owing to continued growth in higher service exports, business process outsourcing industries and higher income from trade and shipping services the current account deficit was 1.9% of GDP. Sri Lanka may seek a loan facility from the IMF owing to BOP pressure but a crisis is unlikely to happen due to the

deficit being small relative to GDP. It is important to note that public debt rose from 71% of GDP in 2014 to almost 76% in 2015.

Sri Lanka's policy and priorities

Sri Lanka's economic policy is in transition with the aim of making its external sector become more export oriented and there is also a focus on reorienting trade agreements with trading partners.

Sri Lanka (SL) is a member of the World Trade Organization. It also has a limited number of bilateral free trade agreements with partner countries in the region (India, Pakistan) and is party to multilateral free trade arrangements in the South Asia region. Liberalization has been relatively slow and there are no multilateral initiatives with a significant impact beyond the South Asia region that Sri Lanka is participating in.

Sri Lankan exports of goods and services in 2000 stood at 39% of GDP and have fallen since to 22.3%¹. In terms of markets the US and Europe still absorb 55% of exports, while Asia and the Middle East collectively account for about 25%.

Sri Lanka's trade deficit improved in 2014 when it was 11.1% of GDP in nominal terms while it actually increased in real terms to US\$ 8.3 billion in 2014 due to import substitution and export promotion relying on a broad set of incentives/disincentives and quantitative restrictions rather than a liberalisation agenda. It will widen in value terms as demand for machinery, consumer goods and commodities will drive import demand expanding steadily reaching around US\$ 9 Billion in 2015 with the possibility of reaching US\$ 13 Billion by 2020 as domestic investment will spur increased demand for imports of capital goods.

Main pending bilateral negotiations are:

CEPA with India (Comprehensive Economic Partnership Agreement) - Finalization has been delayed by SL for years in a bid to address concerns of the local business community. CEPA in addition to trade in goods includes the services sector as well.

Sri Lanka – China Free Trade Agreement (SLCFTA) – Remains under negotiation with no significant progress in the period under review. With a volume of US\$ 3.4 billion China currently has a share of 18% of Sri Lanka's total imports. In comparison exports to China from Sri Lanka amounted to US\$ 188 million, i.e. 1.7% of all exports only.

CEPA with Pakistan – Remains under negotiation with no significant progress in the period under review. Although the target date for conclusion is 2016 the visit of Pakistani Prime Minister Nawaz Shariff to Sri Lanka in January 2016 resulted only in a verbal agreement between the two partners to try and increase trade volume to US\$ 1 Billion.

Existing trade agreements include:

India-Sri Lanka Free Trade Agreement (ISFTA): The number of products subject to tariff concessions under this agreement is 4'554. Total imports from India averages around US\$ 4 billion in value annually while exports from Sri Lanka to India amount to approx. US\$ 625 Million.

Pakistan-Sri Lanka Free Trade Agreement (PSFTA) The number of products subject to tariff concessions under this agreement is 5310 with a total import value (CIF) to Sri Lanka

¹ [Central Bank Annual Report 2014 – Key Economic Indicators](#)

averaging around USD 280 million while exports from Sri Lanka to Pakistan remain small at around USD 74 million annually.

South Asian Free Trade Agreement (SAFTA) The number of products subject to tariff concessions under this agreement is 4'744 with a total import value (CIF) average of approx. US\$ 1 million annually².

Sri Lanka still benefits from **Generalized System of Preferences** concessions. Although it lost the additional concessions granted by the EU under its GSP+ facility due to non-compliance with the human rights conditionality there are negotiations underway to re-establish this facility by the end of 2016. The GSP extension by the USA which was under review for workers' rights issues has been granted again.

More information is available on the website of the Department of Commerce of Sri Lanka www.doc.gov.lk.

Development and general outlook

The trade deficit which began to widen from the second half of 2014, continued to expand further in the first eight months of 2015, largely due to weak global demand and significantly high domestic demand for imported goods. On a cumulative basis, earnings from exports reached US\$ 7 Billion during the first eight months of 2015, while expenditure on imports amounted to US\$ 12 Billion resulting in a trade deficit of US\$ 5 Billion up by 5% year-on-year.

Earnings from exports continued its slow growth momentum in 2015. There was however a drop in both industrial and agricultural exports with overall earnings from exports by mid-2015 decreasing by 3.4%YOY to US\$ 7 Billion. Industrial exports account for 76% of total exports with earnings from industrial exports declining by 0.8% YOY to US\$ 5 Billion. Weak performance in agricultural exports contributed to more than 70% of the overall decline in export earnings with it dropping by 9.8% YOY to US\$ 1.6 Billion mainly due to the significant drop in tea and seafood exports. Expenditure on imports during 2015 remained at the same level recorded in the corresponding period of the previous year, despite the significant drop in international commodity prices, especially fuel. Import expenditure on consumer goods, which accounts for approximately 25% of total imports increased by 37.3% YOY to US\$ 3 Billion in 2015.

As for direction of export the primary destinations were the EU – mainly UK, Italy, Germany, and Belgium with (31%), the USA (24%), Asian countries such as India, Japan, China, Hong Kong and Singapore (12%), Middle Eastern countries such as the UAE and Iran (7%) and other countries (20%). In terms of import sources India (20%), China (18%) account for the bulk of imports followed by UAE (9%), other Asian countries such as Japan, Malaysia, Indonesia, Taiwan and Thailand (22%) and EU countries (9%) and other countries (15%).

Development and General Outlook

The FDI inflow showed a 14% improvement reaching US\$ 1.6 billion in 2014. Total FDI amounted to 2.2% of GDP. This is a 21% increase from 2013 but far below the government's 2014 target of US\$ 2 billion. Even at the height of the Sri Lanka war in 2008 FDI's worth US\$ 888 had been recorded.

Infrastructure took a lion's share of investment with 42.2% with major investments in the housing and property development, ports and container terminals and telecommunication subsectors. The service sectors received an increased about 36.8% of investments which

² SAARC reference on SAPTA (electronic): http://saarc-sec.org/areaofcooperation/detail.php?activity_id=5

increased from 17% in 2013 with a focus on aviation, hotels and restaurants and IT/BPO services. Manufacturing dropped to around 20.7% of FDI's. Manufacturing is mainly focused on textiles, apparels, leather products, rubber products, chemicals, coal and petroleum industries.

General Economic Data

	2011	2012	2013	2014	2015
GDP Growth (USD) Billion	59.2	59.4	67.2	73.2	81.0
GDP Per Capita (USD)	2400	2,836	2,922	3,280	3,609***
GDP Growth (%)	8.4	9.1	3.4**	4.5**	5.6**
Inflation (%)	6.7	7.6	6.9	3.2	3.0 (e)
Unemployment (%)	4.2	4.0	4.4	4.5	4.2 (e)
Overall Deficit (% of GDP)	-6.9	-6.5	-5.9	-5.2	-3.6
Fiscal Sector Current Account Balance (% of GDP)	-2.1	-0.9	-1.0	-0.8	-1.0***
External Sector Current Account Balance (% of GDP)	-2.2	-7.8	-6.7	-3.9	-
Total External Debt (% of GDP)	55.3	62.5	59.2	61.4*	-
Exports (% of GDP)	23.1	22.8	22.5	22.4	-
Gross Official Reserves (Months of Imports)	4.0	4.4	5.0	6.1	4.5 (e)
Total External Reserves (Months of Imports)	4.7	5.4	5.7	7.1	5.6 (e)

Governmental agencies responsible for the main statistics (foreign trade, investment etc.)

Central Bank of SL	E-Mail Website	cbsslgen@sri.lanka.net http://www.cbssl.lk
Department of Census and Statistics,	E-Mail: j Website:	nformation@statics.gov.lk www.statistics.gov.lk
Sri Lanka Export Development Board	E-Mail: Website:	edb@tradenetsl.lk www.srilankabusiness.com
Department of Customs	E-Mail Website:	webmaster@customs.gov.lk www.customs.gov.lk
Internet addresses of particular interest regarding the country		
Official Website of the Government of Sri Lanka		http://www.priu.gov.lk/
The Ceylon Chamber of Commerce	E-Mail: Website:	info@chamber.lk www.chamber.lk
European Chamber of Commerce of Sri Lanka. Tel: 00941 2375486	E-Mail: Website:	ecprojects@sltnet.lk www.eccsl.com (under construction)
Institute of Policy Studies of Sri Lanka	E-Mail: Website	ips@sri.lanka.net www.ips.lk

Ministries, government agencies		
Ministry of Finance	E-Mail: Website:	mfadse@sltnet.lk www.treasury.gov.lk
The Official Website of the Government of Sri Lanka	E- Mail: Website: Website:	priu@presidentsoffice.lk www.gov.lk www.priu.gov.lk
The Department of Immigration and Emigration	E-Mail Website:	Controller@immigration.gov.lk www.immigration.gov.lk
Sri Lanka (Ceylon) Tourist Board	E-Mail: Website:	ctbria@sltnet.lk www.srilankatourism.org
Board of Investment	Email Website	http://www.investsrilanka.com/ nilupuls@boi.lk (Europe Desk)
Other sources		
Asian Development Bank (ADB)	Website:	http://www.adb.org/SriLanka/default.asp
World Bank	Website:	www.worldbank.org/lk
Economist	Website:	www.economist.com/countries/SriLanka
Switzerland Global Enterprise (SGE)	Website: Email	http://www.s-ge.com/en info@s-ge.com
Economic newspaper – Daily FT	Website	http://www.ft.lk/
Sri Lankan Media & Press releases	Website:	http://www.onlinenewspapers.com/srilanka.htm

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