



# Economic Outlook: Sri Lanka

---

*Kithmina V. Hewage*

# Overview

- Macroeconomics
- Trade and Investment
- Policy Vision



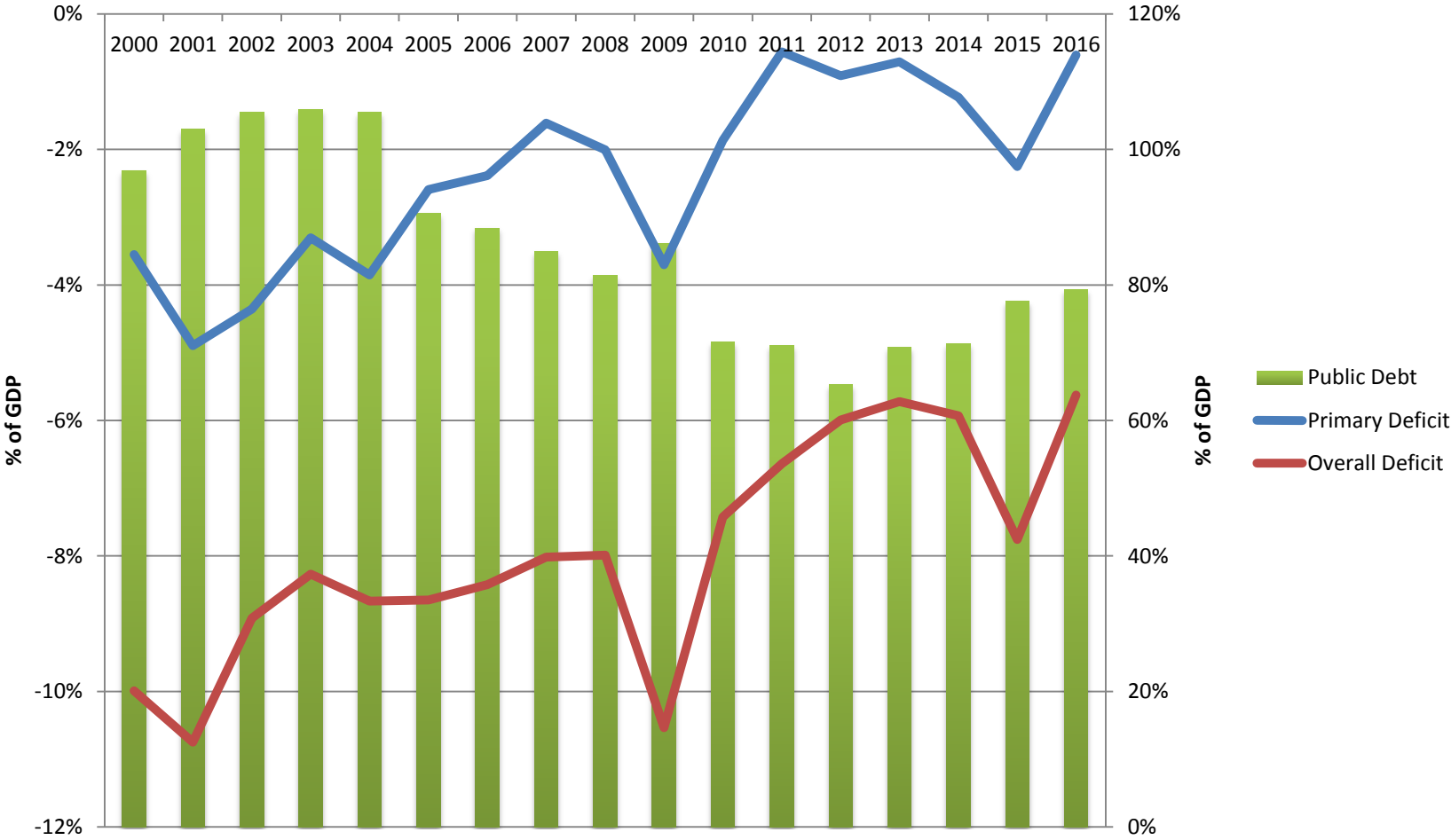
# Macroeconomic Overview



INSTITUTE OF POLICY STUDIES OF SRI LANKA

- Successive governments since independence have racked up unsustainable fiscal deficits
- Despite some improvements, deficits average 7-8 percent of GDP
  - fuelling high and volatile rates of inflation
- Debt also accumulated over time, peaking at 105 percent of GDP in 2002
  - narrows policy manoeuvrability and increases exposure to internal and external shocks.

# Fiscal Deficits and Public Debt (2000-2016)



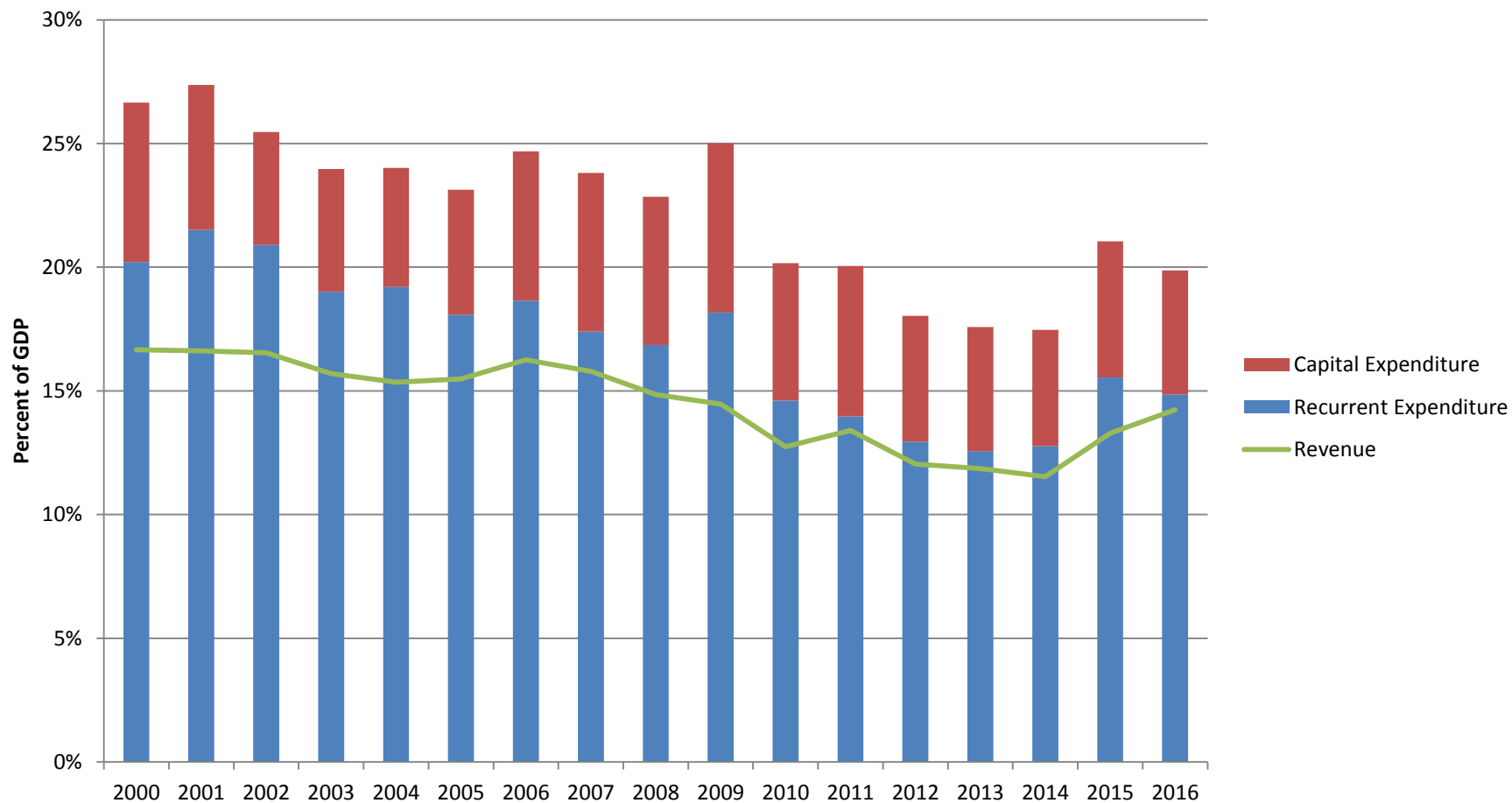
Source: Annual Reports, Ministry of Finance – Sri Lanka



INSTITUTE OF POLICY STUDIES OF SRI LANKA

- Government is also a continuous dis-saver, with primary deficits above 4 percent in recent years
- Government revenue mobilization has failed to even adequately cover public recurrent expenditure
- Fiscal Management Responsibility Act was passed in 2003, but discarded after tsunami
- Since 2009, fiscal deficit has progressively fallen, but driven mostly by high GDP growth

# Revenue and Expenditure



Source: Annual Reports, Ministry of Finance – Sri Lanka

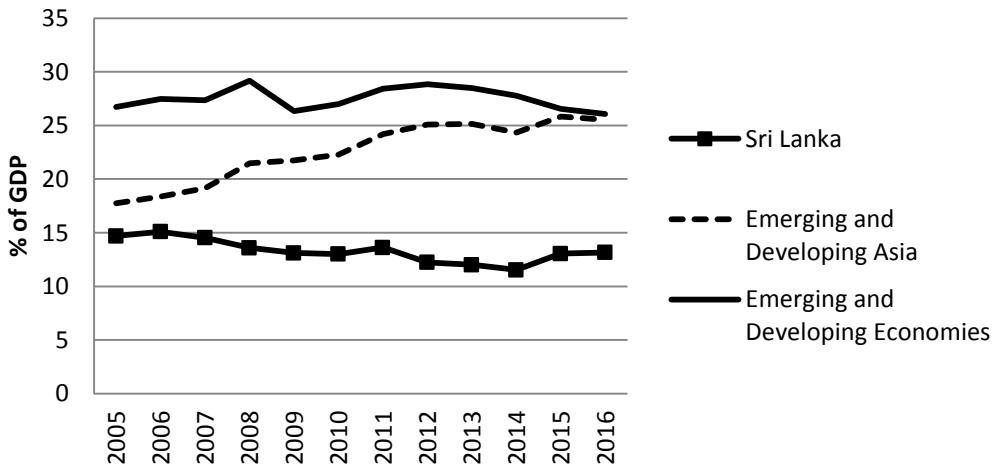


INSTITUTE OF POLICY STUDIES OF SRI LANKA

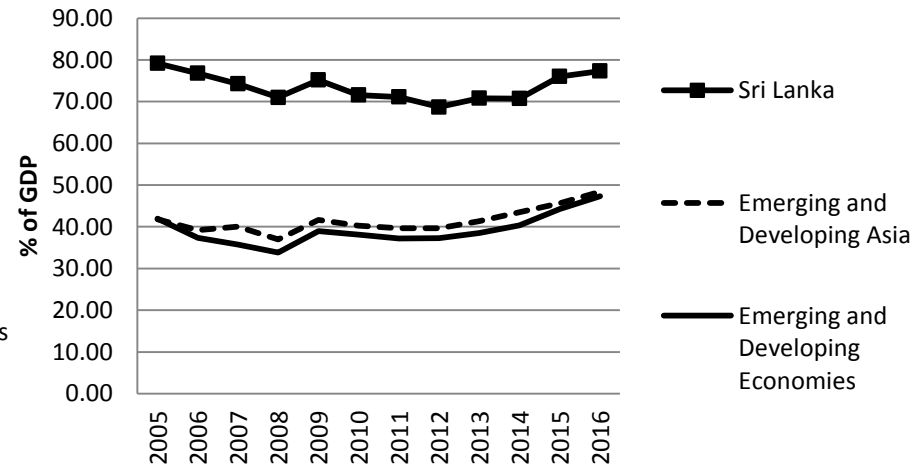
# Sri Lanka in Comparison

- Sri Lanka's fiscal position is extremely poor compared to other countries at a similar economic standing
- Urgent need to reorient the economy towards a more sustainable means of development finance

## Government Revenue



## Government Gross Debt



Source: Sri Lanka: State of the Economy 2016, IPS



# Trade & Investment



INSTITUTE OF POLICY STUDIES OF SRI LANKA

# Sectoral Composition of GDP

Year	1975	1980	1985	1990	1995	2000	2004	2010	2015
<b>Agriculture</b>	30.4%	27.6%	27.7%	26.3%	23%	19.9%	12.7%	8%	8.2%
<b>Industry</b>	26.4%	29.6%	26.2%	26%	26.5%	27.3%	30.2%	26.6%	27.3%
<b>Services</b>	43.2%	42.8%	46.1%	47.7%	50.5%	52.8%	57.3%	54.6%	57.3%
<b>Manufacturing</b>	13.1%	18.3%	18.2%	17.4%	20.4%	15.8%	16.3%	17.3%	15.4%

Source: Central Bank, Annual Report, Various Issues

- Sri Lanka's industrial component – including manufacturing – has been effectively leapfrogged by the services sector
- However, services sector growth has been in domestic non-tradeables like wholesale and retail trade (25% of GDP), transport, storage and communication services – that are not export revenue generating

# Foreign Direct Investment

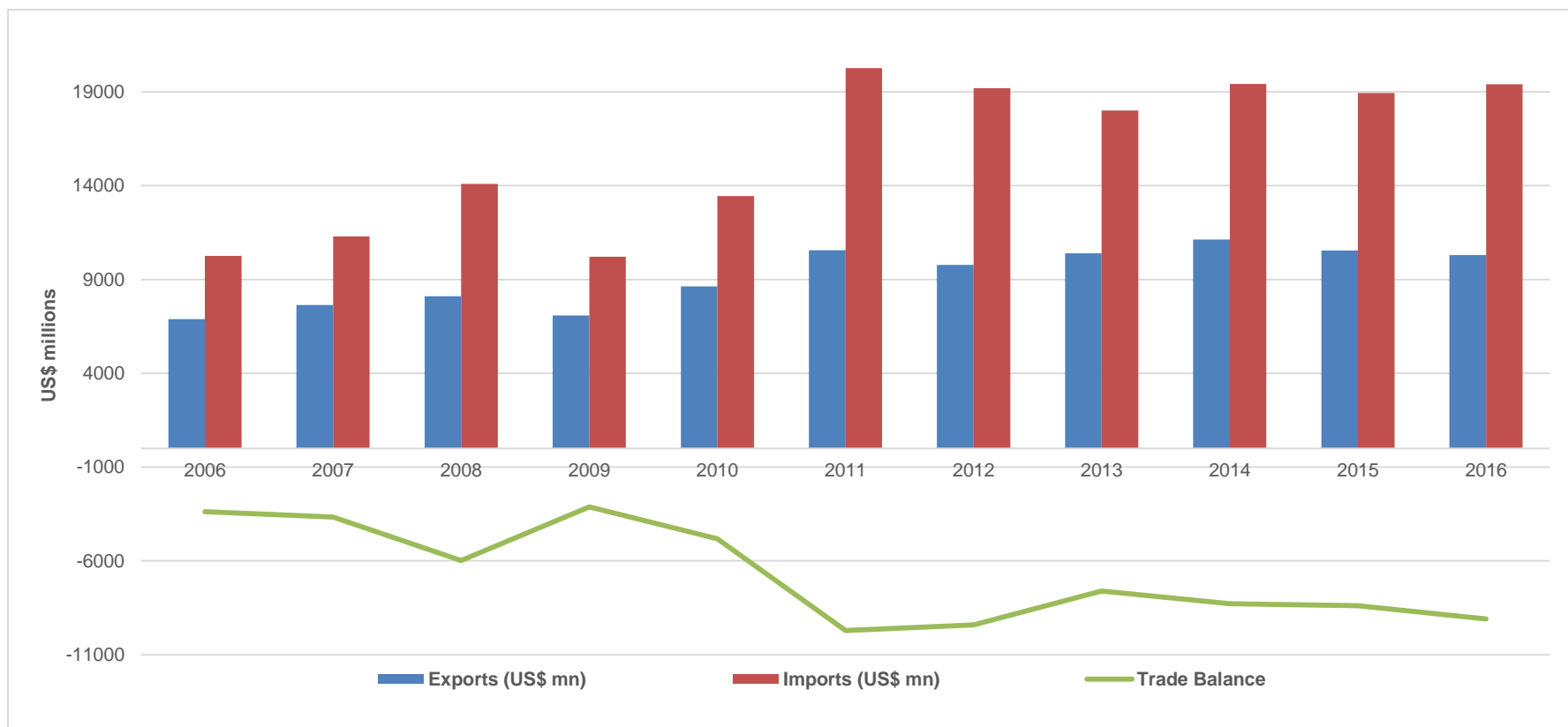


Source: CBSL, *Annual Report 2017*, Central Bank of Sri Lanka



INSTITUTE OF POLICY STUDIES OF SRI LANKA

# Sri Lanka's Trade Performance



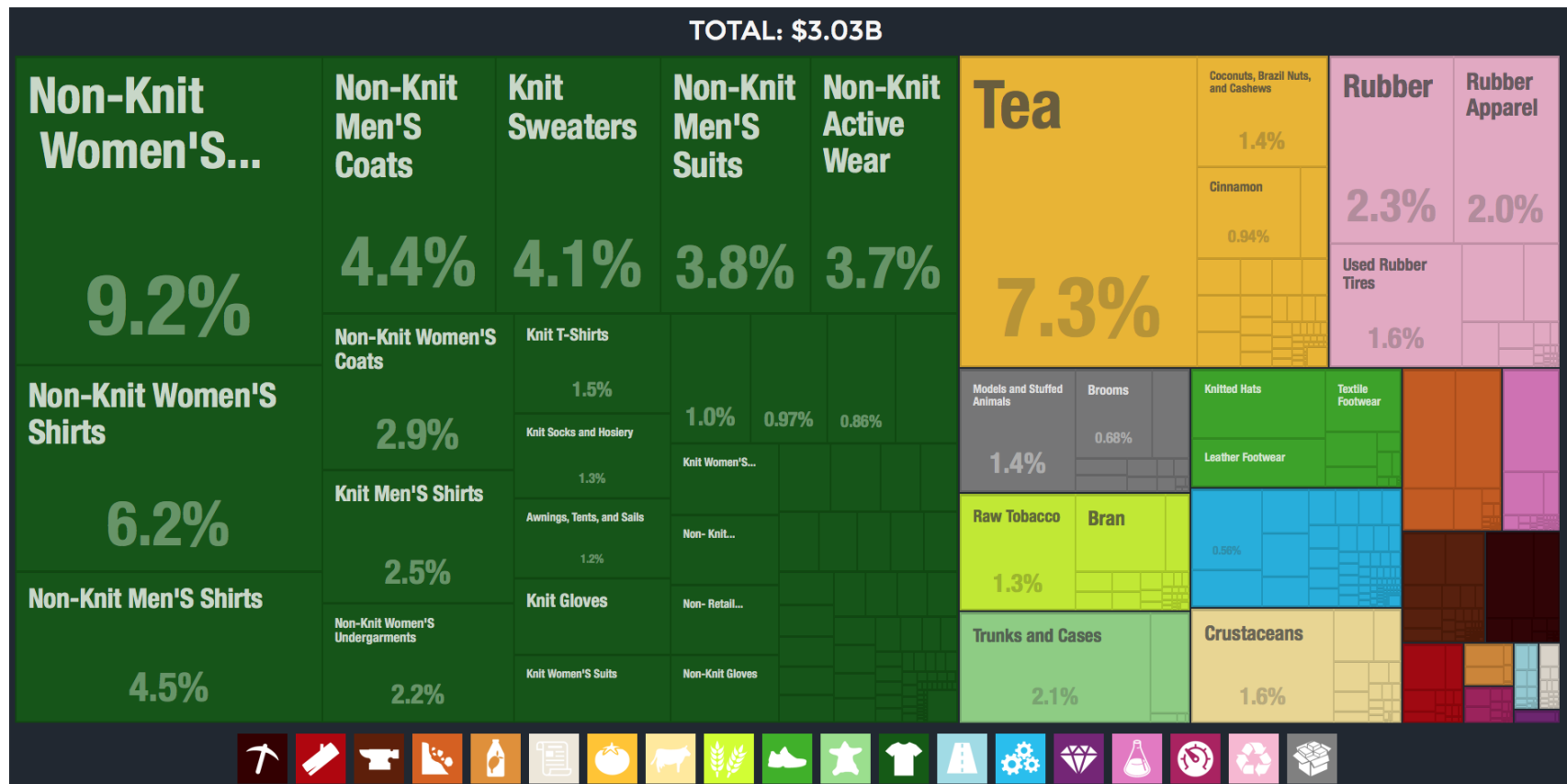
Source: CBSL, *Annual Report 2017*, Central Bank of Sri Lanka, Colombo.



INSTITUTE OF POLICY STUDIES OF SRI LANKA

# Structure of Economy (1995-2015)

Sri Lanka's export basket, 1995



Source: The Observatory of Economic Complexity, 2017

# Structure of Economy (1995-2015)

Sri Lanka's export basket, 2015



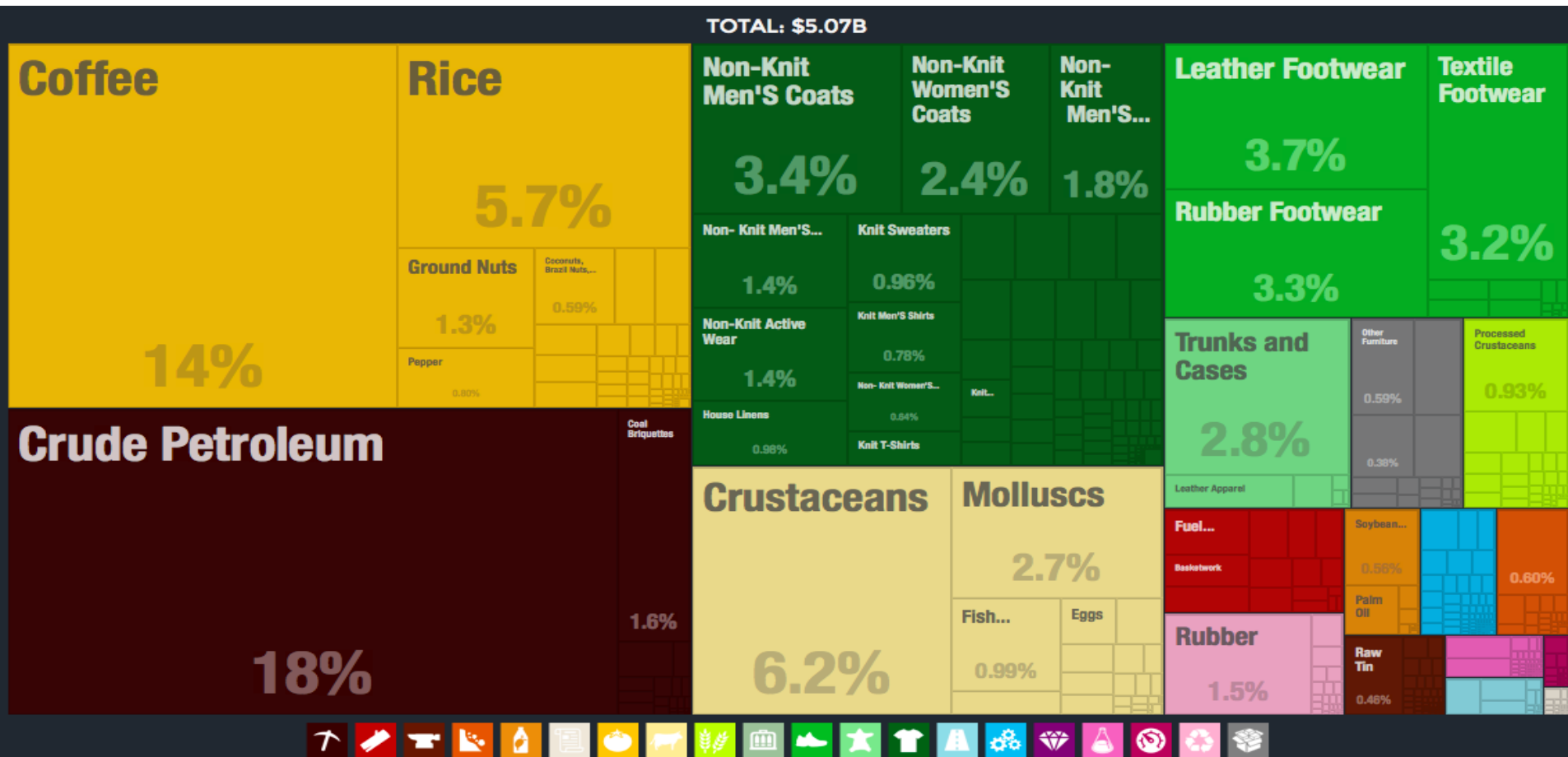
Source: The Observatory of Economic Complexity, 2017



INSTITUTE OF POLICY STUDIES OF SRI LANKA

# Structure of Economy (1995-2015)

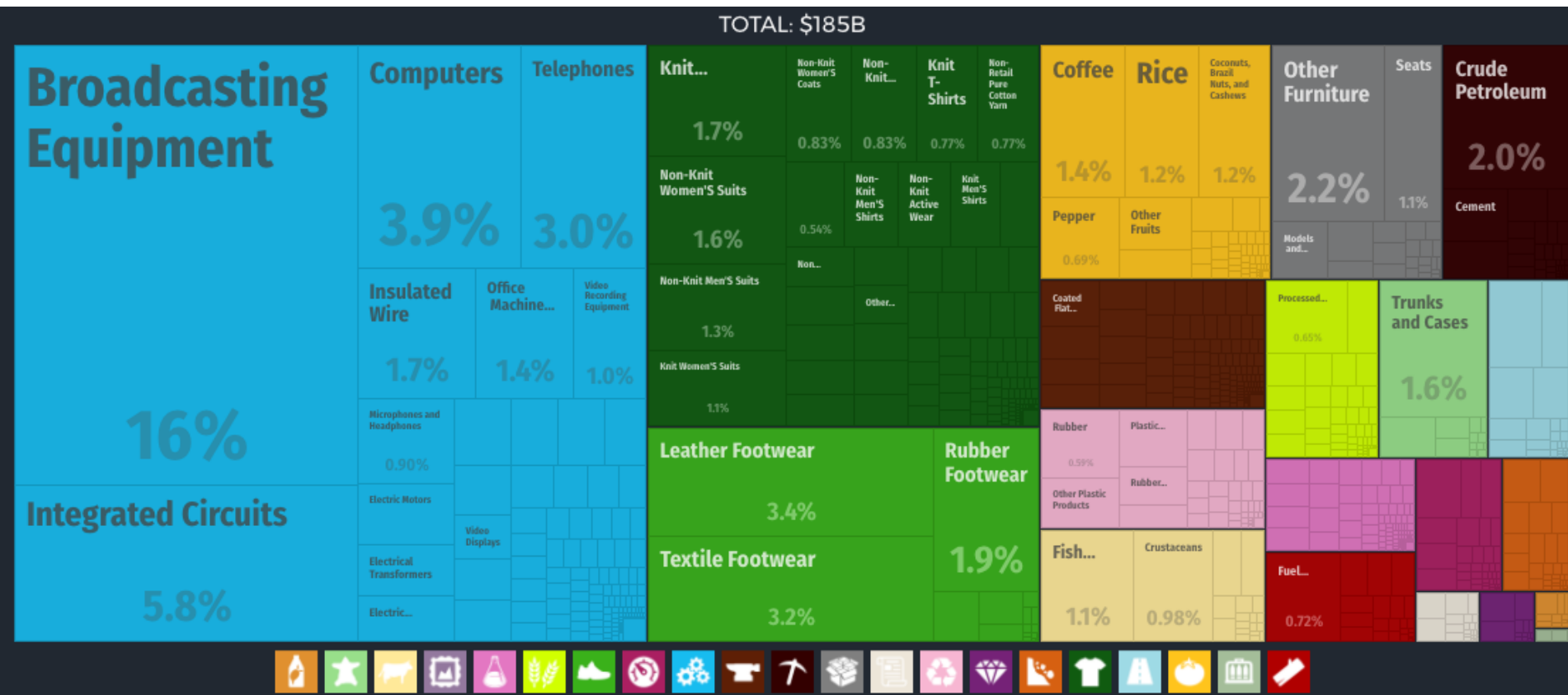
Vietnam's export basket, 1995



# Structure of Economy (1995-2015)

Vietnam's export basket, 2015

TOTAL: \$185B



Source: The Observatory of Economic Complexity, 2017



INSTITUTE OF POLICY STUDIES OF SRI LANKA







Protectionism and policy inconsistency has severely affected Sri Lanka's trade competitiveness and attractiveness as an investment destination



Export oriented activities are still confined to low-skilled, labour intensive manufacturing (e.g. apparels, rubber based products)

# Policy Vision



INSTITUTE OF POLICY STUDIES OF SRI LANKA

# Post-Conflict Sri Lanka



Post-conflict growth was based on debt-led infrastructure spending

Concurrent slowdown of export sector growth and fall in FDI

# Twin Challenge for Post-Conflict Sri Lanka

- Fiscal stabilization
- Catalyse economic growth



Revenue  
Generation

Government  
Expenditure

Reform

Labour Market

Education

Public Private  
Partnerships

FDI

Growth

Ease of Doing  
Business

Integration to  
Asian Markets



# Thank You



**Institute of Policy Studies of Sri Lanka**  
100/2 Independence Avenue,  
Colombo 7, Sri Lanka  
T: +94 11 2143100

[www.ips.lk](http://www.ips.lk)

 [www.ips.lk/talkingeconomics](http://www.ips.lk/talkingeconomics)

 [/instituteofpolicystudies](https://www.facebook.com/instituteofpolicystudies)

 [@TalkEconomicsSL](https://twitter.com/TalkEconomicsSL)