



UNDER EMBARGO UNTIL 12.00 HRS., BANGKOK TIME, THURSDAY, 28 APRIL 2016

SRI LANKA

GDP (current US\$, billions):	\$78.82	Population (thousands):	20,771
Share of GDP in developing Asia-Pacific:	0.3%	GDP per capita (current US\$):	\$3,794.89
Share of GDP in South and South-West Asia:	1.4%	Average inflation (2015)	3.8%

- Economic growth in Sri Lanka was stable at 4.9% in 2015, although this rate remained much lower than the average growth rate of 8.5% during the period 2010-2012.
- The expansion was largely broad-based. A revival in agricultural output benefited from favourable weather conditions. Manufacturing activities expanded, while real estate, finance and trade drove accelerated growth in the services sector. On the demand side, growth was driven mainly by private consumption.
- Relatively soft price pressure, partly a result of much lower administered fuel prices, enabled the policy rate cut of 50 basis points in April 2015. Nonetheless, the policy rate was raised by a similar magnitude in early 2016 to address rapid credit growth.
- On the external front, the current account deficit in 2015 widened despite strong tourist arrivals. Shipments of tea, seafood and garments decreased due to weak demand and the import bans imposed by the European Union. Workers' remittances, the country's largest source of foreign exchange, were held back by a decline in income inflows from the Middle East.
- The Government resorted to borrowing from the International Monetary Fund (IMF) to beef up foreign exchange reserves against the backdrop of sharp depreciation in the exchange rate.
- Growth is projected to gain further momentum, at 5.4% in 2016 and 5.9% in 2017. Private consumption will likely remain the key growth driver amid greater urbanization and rising demand for housing.
- One immediate policy challenge is to ensure a strong fiscal position and debt sustainability. Public debt reached 72% of GDP in 2014. The 2016 budget suggests that the fiscal deficit would remain large at 5.9% of GDP. The fiscal shortfall is due to both limited revenue collection, with the tax revenue-to-GDP ratio having been only 10.2% in 2014, and the country's large expenditure burden. Unless tax reforms and expenditure rationalization are implemented, fiscal conditions are unlikely to improve significantly.
- One of the medium-term challenges is to transform Sri Lanka into a competitive export-led economy. To achieve this, the Government has fostered public-private partnerships and promoted liberalization of the services sector.
- The need to enhance labour skills, diversify export markets, restructure loss-making State-owned enterprises and reduce infrastructure deficiencies will remain important. Development in these areas would help the country to attract more FDI and employment.
- Youth employment in Sri Lanka is 10 times higher than overall employment, the largest difference in the Asia-Pacific region.