

Under embargo until 12:00 noon. Bangkok Time, Monday, 1 May 2017

SRI LANKA

GDP (current US\$, billions):	\$82.32	Population (thousands):	20,810
Share of GDP in developing Asia-Pacific:	0.4%	GDP per capita (current US\$):	\$3,973.70
Share of GDP in South and South-West Asia:	1.8%	Average inflation (2016)	4.0%

- Economic growth in Sri Lanka moderated to 4.4 per cent in 2016, from 4.8 per cent in 2015 and an average of 7.4 per cent during the period 2010-2014.
- Agricultural output contracted as production of key commodities, such as rubber, rice and tea, was impaired by severe weather conditions. For production of food and beverages and textiles and garments, slight declines were recorded.
- The construction and services sectors were more buoyant, especially in financial services and domestic trade.
- On the external front, export earnings shrank in 2016, although the current account deficits narrowed thanks to stronger tourism revenues and remittance inflows.
- Subdued agricultural output and higher wage levels pushed up inflation to 4 per cent in 2016, well within the official target of 4-6 per cent.
- To contain credit growth, the policy rates were raised twice in 2016 for a total of 100 basis points.
- Economic growth is expected to rebound modestly to 4.8-4.9 per cent in 2017 and 2018. Agricultural activity should recover from adverse weather conditions.
- A major headwind to stronger growth prospects, however, is fiscal tightening that would constrain consumer spending and public investment, especially in an environment of higher domestic interest rates.
- The country's medium-term economic development is contingent upon the success of reforms designed to reduce stubbornly large fiscal and trade deficits.
- Public debt currently stands at close to 80 per cent of GDP, with a large share being foreign-currency denominated. In this regard, the Government has strengthened its fiscal consolidation programme by increasing the value-added tax rate from 11 to 15 per cent and imposing various taxes, such as a capital gains tax and carbon tax for motor vehicles. There are also efforts to tax e-commerce transactions, reform State-owned enterprises and improve tax administration.