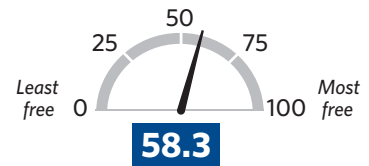


SRI LANKA

Economic Freedom Score



World Rank: **97** Regional Rank: **16**

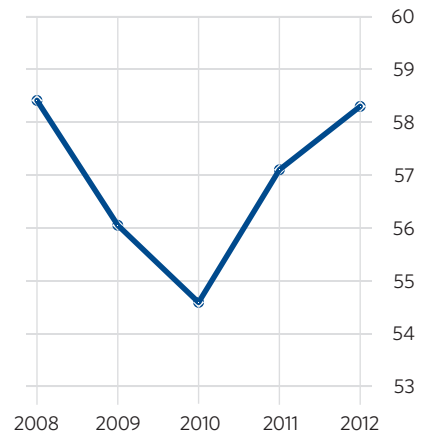
Sri Lanka's economic freedom score is 58.3, making its economy the 97th freest in the 2012 *Index*. Its score is 1.2 points higher than last year, reflecting solid gains in trade freedom, monetary freedom, and business freedom. Sri Lanka is ranked 16th out of 41 countries in the Asia-Pacific region, and its score remains below the world average.

The Sri Lankan economy continues to progress toward greater economic freedom, registering significant score gains in the past two years. Notable changes have been implemented in key areas. Regulatory efficiency has been considerably enhanced through establishment of a streamlined business formation process and simplification of licensing requirements. Non-tariff barriers are relatively low, statutory tariff rates have been reduced, and many import surcharges have been eliminated.

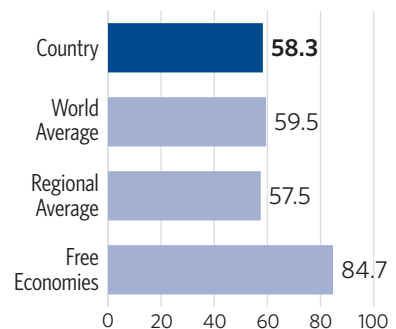
Nevertheless, challenges to economic freedom in Sri Lanka are considerable, particularly in strengthening the fundamentals. Property rights are undermined by an inefficient judicial system that remains susceptible to substantial corruption and political influence. The heavy state presence in the economy continues to hamper private-sector development.

BACKGROUND: In April 2010, President Mahinda Rajapakse's ruling coalition won a landslide victory in parliamentary elections. Rajapakse's re-election was attributed to success in defeating the terrorist Liberation Tigers of Tamil Eelam and eliminating its top leadership in 2009, thus ending a three-decade civil war that took the lives of some 70,000 people. The government announced plans to ease emergency laws in May 2010 but is still under pressure from the international community to conduct an inquiry into its handling of the final days of the war. The government has been accused of stifling press freedom and recently rejected an opposition-initiated bill to loosen restrictions on the media. Sri Lanka depends heavily on foreign assistance, and China has become a significant lender for infrastructure projects.

Freedom Trend



Country Comparisons



Quick Facts

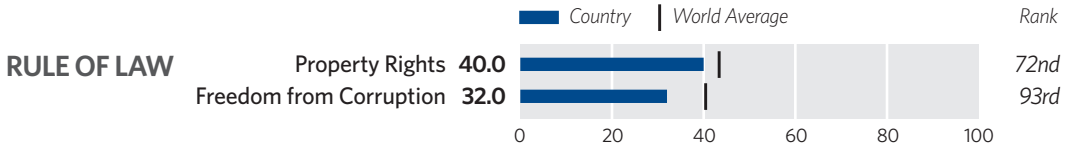
- Population:** 20.4 million
- GDP (PPP):** \$106.5 billion
- 9.1% growth in 2010
- 5-year compound annual growth 6.7%
- \$5,220 per capita
- Unemployment:** 5.4%
- Inflation (CPI):** 5.9%
- FDI Inflow:** \$477.6 million
- Public Debt:** 86.2% of GDP

How Do We Measure Economic Freedom?

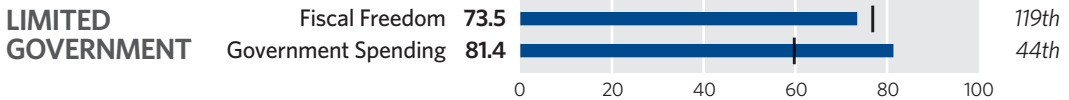
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
Data compiled as of September 2011.

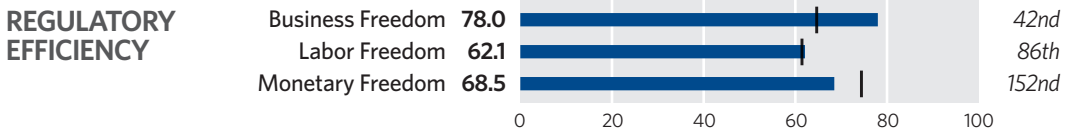
THE TEN ECONOMIC FREEDOMS



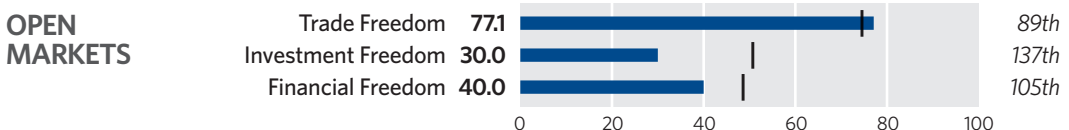
The judicial system is weak and vulnerable to political interference. The commercial court system is subject to extensive delays that often lead investors to pursue out-of-court settlements. A fairly reliable registration system exists for recording private property, including land and buildings, but fraud and forged documents are problems. Mistrust of government is considerable due to widespread public-sector corruption.



The top income tax rate is 35 percent, and the top corporate tax rate is 35.5 percent. Other taxes include a value-added tax (VAT), with the overall tax burden amounting to 12.8 percent of total domestic income. Government spending has risen to a level equivalent to 24.9 percent of GDP. The budget deficit continues to be over 5 percent of GDP, and public debt remains at over 80 percent of GDP.



Procedures for setting up a business have been streamlined, and the number of licensing requirements has been reduced. With no minimum capital required, launching a business takes four procedures and slightly longer than the world average of 30 days. The cost of completing licensing requirements is now significantly lower. Labor regulations are rigid, though enforcement can be lax. Inflation has been high but declining.



The trade weighted average tariff rate is 6.4 percent, and extensive non-tariff barriers further constrain freedom to trade. Inadequate infrastructure and burdensome bureaucracy hinder much-needed dynamic growth in private investment. Non-performing loans in the banking system remain a problem, and the state continues to influence the allocation of credit. The non-banking financial sector remains underdeveloped.

Score Changes

| RULE OF LAW | | LIMITED GOVERNMENT | | REGULATORY EFFICIENCY | | OPEN MARKETS | |
|-------------------------|------|---------------------|------|-----------------------|------|--------------------|------|
| Property Rights | 0 | Fiscal Freedom | +0.1 | Business Freedom | +6.1 | Trade Freedom | +4.9 |
| Freedom from Corruption | +1.0 | Government Spending | -3.3 | Labor Freedom | +0.3 | Investment Freedom | 0 |
| | | | | Monetary Freedom | +2.7 | Financial Freedom | 0 |