

Country Insight Snapshot

Sri Lanka

March 2018





OVERVIEW

OVERALL COUNTRY RISK RATING: DB5b

High risk : Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

R

Rating Outlook: Stable

CORE OUTLOOK

- + Sri Lanka's longstanding investment in healthcare and education has brought considerable advances in terms of human development.
- + Tourism is growing robustly across the island and providing jobs in hospitality and the construction industry.
- + New free-trade agreements with Singapore and China will pave the way for pan-Indian-Ocean linkages.
- The sovereign debt burden remains far higher than in peer countries.
- Deteriorating public finances necessitated another IMF loan, austerity measures and subsidy cuts, although reforms are progressing.
- Sri Lanka is vulnerable to natural disasters including floods, drought and landslides - these caused agricultural output to fall sharply in 2016-17.

KEY DEVELOPMENT

Violent attacks on Muslim-owned homes, shops and vehicles in Kandy District prompted an island-wide state of emergency, the first since 2009.

CREDIT ENVIRONMENT OUTLOOK

R

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

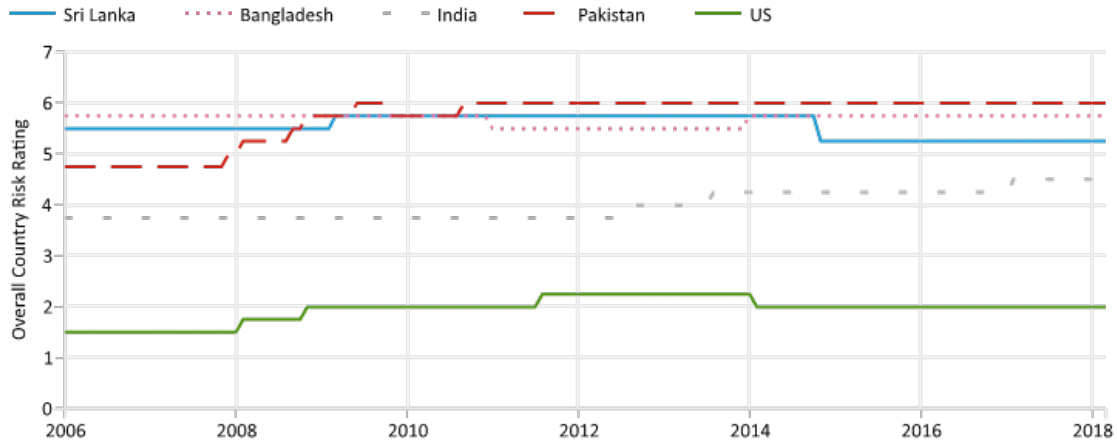
Trend: Deteriorating

Key Development has had a negative impact on the outlook.



KEY INDICATORS

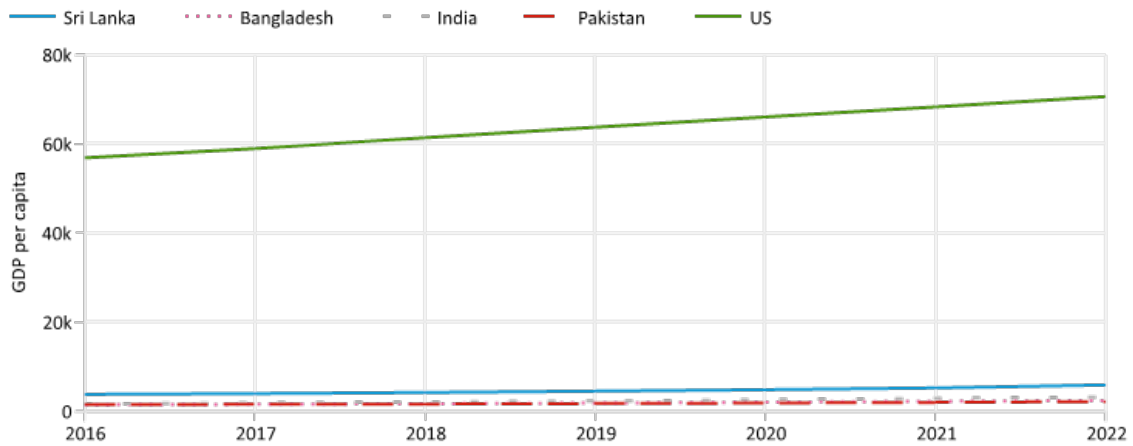
Rating History and Comparison



Source : Dun & Bradstreet

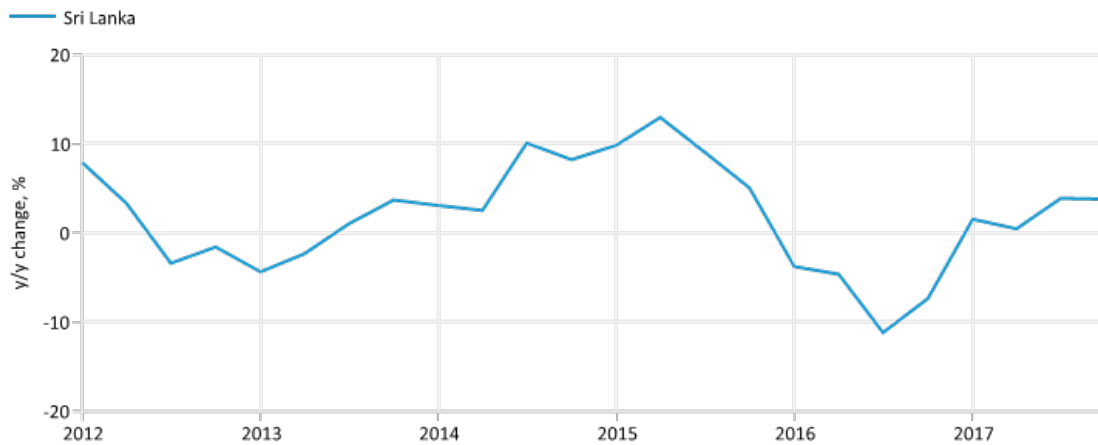
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2015	2016	2017e	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-2.3	-2.3	-3.3	-3.5	-3.5	-3.9	-3.9	-1.9
Debt Service Ratio, %	20.0	17.9	27.0	30.0	28.5	27.0	25.5	24.5
Govt balance, % GDP	-7.6	-5.4	-5.2	-4.8	-4.5	-4.3	-4.3	-4.2
Inflation, annual avge %	2.2	4.0	6.7	5.0	5.5	5.5	5.7	5.8
Real GDP Growth, %	5.0	4.4	3.1	4.7	4.8	5.0	5.2	5.1

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The EU's decision to reinstate its Generalized System of Preferences (GSP) Plus scheme of non-reciprocal tariff concessions for the majority of the island's exports is a boon to Sri Lanka. Exporters (notably garment producers) will see a modest improvement in conditions in 2018, following a challenging 2017. Positively, negotiations on free-trade agreements with Singapore and China are under way and are expected to be finalised in 2018. However, Indian policymakers appear to be in no hurry to complete the Economic and Technical Co-operation Agreement (ETCA) with India's island neighbour, as it watches how a similar deal between Sri Lanka and China pans out - two Chinese state-owned companies took a 70% stake in Hambantota Port on a 99-year lease in 2017. The southern port and the Port of Colombo will form part of the Maritime Silk Road in China's 'One Belt, One Road' initiative in the medium term, enabling Sri Lanka to maximise its potential as a hub on Asia-Europe shipping routes.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: CLC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-60 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 1-2 months

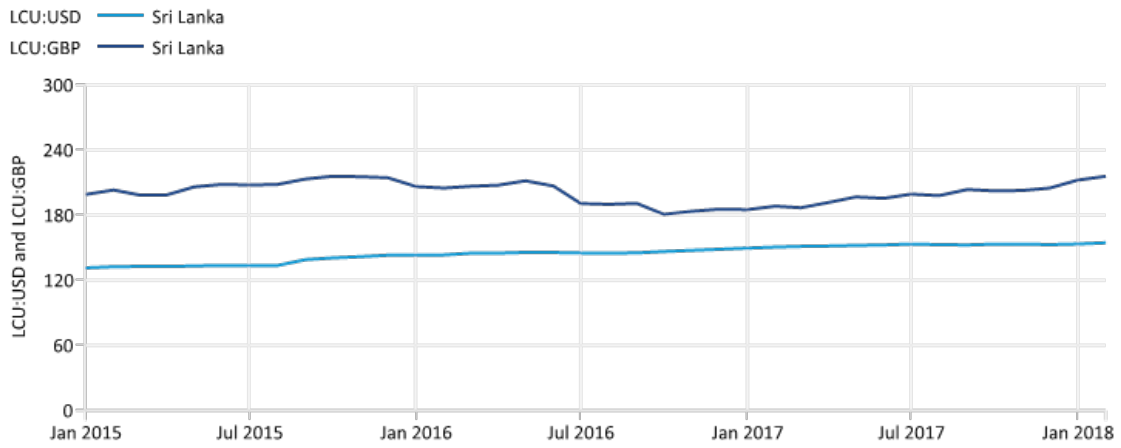
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



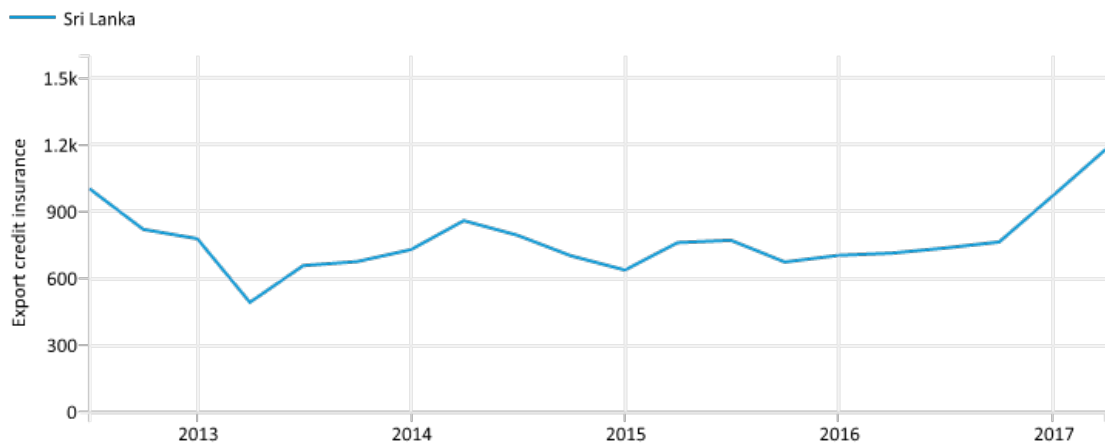
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Sri Lankan rupee

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Violence leads to national state of emergency

An outbreak of violence in and around Kandy in Sri Lanka's central highlands prompted the authorities to impose an island-wide state of emergency in early March for the first time since the end of the civil war in 2009. The violence was apparently sparked by a road-rage incident involving a Sinhalese truck driver and a group of Muslim men. Following the driver's death, mobs reportedly attacked homes, shops and vehicles, reportedly leaving two people dead, around 450 buildings damaged and 60 vehicles burned. The police reportedly arrested more than 300 people, including the leader of a hard-line Buddhist group. President Sirisena lifted the state of emergency, which had included nationwide bans on using social media, on 17 March.

The episode underlines how tensions can simmer close to the surface in Sri Lanka. Muslim communities (close to 10% of the population) have come under repeated attacks from Sinhalese groups, including Bodu Bala Sena (BBS), since 2011. While incidents have mainly taken place away from the country's main commercial centres, and have been contained relatively quickly, there are concerns that extremists are developing links with radical groups overseas. In 2014, for example, Ashin Wirathu, a Buddhist monk in Myanmar who has faced allegations of inciting violence against Rohingya Muslims, reportedly offered his support to the BBS. There is also the danger that further attacks might provoke a backlash among young Muslim men.

Short-Term Economic Outlook

GDP growth slumped in 2017

Sri Lanka's economy grew by just 3.1% y/y in 2017 - a 16-year low, and down from 4.4% annual expansion in 2016, according to the national Census and Statistics Department. The dire performance of agriculture was the main reason - output contracted by 0.8% y/y after two consecutive poor harvests. This reflects a combination of drought conditions across many northern and eastern districts (which continue) and torrential rains across the south-west of the island in May last year which triggered floods and landslides. The UN Food and Agriculture Organisation (FAO) estimates that rice production slumped by 40% y/y in 2017, leaving some 900,000 people facing food insecurity. Other crops including pulses, onion and chillies were also hit.

The industrial sector fared better, expanding by 3.9% y/y, buoyed by textiles and apparel, which benefitted from the restoration of the GSP plus arrangement with the European Union. Rubber and plastics production performed relatively strongly, along with fabricated metals and machinery and equipment. The services sector, which accounts for more than half of Sri Lanka's GDP, grew by a modest 3.2% y/y in 2017. The strongest performers were broadcasting, telecommunications, financial services and insurance. Nevertheless, the outlook for the economy in 2018 is more positive, with exports picking up, albeit from a low base, a gradual improvement in the fiscal situation and rising foreign reserves against a relatively-benign inflationary backdrop.



COUNTRY PROFILE AND STATISTICS

Overview

Sri Lanka is a verdant Indian Ocean island with a mountainous interior famed for tea cultivation. Tea and textiles account for almost 60% of exports. Following independence in 1948, tensions increased dramatically between the majority Sinhalese and minority Tamil communities as the major political parties began to use Sinhalese nationalism as an effective vote-winning strategy. In 1983, a major outburst of communal violence triggered a fully-fledged civil war. By the 1990s, the Liberation Tigers of Tamil Eelam (LTTE) separatist group had developed a *de facto* mini-state in the Tamil-majority north and parts of the east of the country. In 2009, the government killed the LTTE's leader and destroyed much of the LTTE's military capacity, effectively ending the 25-year civil war (if not ongoing ethnic tensions). Sri Lanka's economy has grown strongly since then, amid sustained investment in the island's infrastructure, a buoyant tourism sector, robust remittances from an estimated 1.8m Sri Lankans working abroad, and recovering demand for textiles, garments, agricultural produce and industrial goods. However, the outlook has darkened in the recent past as the country faces the consequences of economic mismanagement under President Rajapaksa, a slowdown in China, and stagnating export markets.

Key Facts

Key Fact	Detail
Head of state	President Maithripala SIRINESA
Capital	Colombo
Timezone	GMT +05-30
Official languages	Sinhala, Tamil
Population (millions)	21.0
GDP (USD billions)	85.4
GDP per capita (USD)	4,068
Life expectancy (years)	75.0
Literacy (% of adult pop.)	92.6
Surface area (sq km)	65,610

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017e
Real GDP growth (%)	3.4	5.0	5.0	4.5	4.0
Nominal GDP in USDbn	74	80	82	81	85
Nominal GDP in local currency (bn)	9,592	10,448	11,183	11,839	13,013
GDP per Capita in USD	3,619	3,876	3,966	3,897	4,068
Population (year-end, m)	20.5	20.6	20.8	20.9	21.0
Exchange rate (yr avge, USD-LCU)	129.1	130.6	135.9	145.6	152.4
Current Account in USDbn	-2.5	-2.0	-1.9	-1.9	-2.8
Current Account (% of GDP)	-3.4	-2.5	-2.3	-2.3	-3.3
FX reserves (year-end, USDbn)	7.5	8.2	7.3	6.0	8.0
Import Cover (months)	4.2	4.3	3.8	3.1	3.9
Inflation (annual avge, %)	6.9	2.8	2.2	4.0	6.7
Govt Balance (% GDP)	-5.4	-5.7	-7.6	-5.4	-5.2

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	4.7	4.8	5.0	5.2	5.1
Nominal GDP in USDbn	91	98	106	114	129
Nominal GDP in local currency (bn)	14,178	15,532	17,046	18,776	21,011
GDP per Capita in USD	4,324	4,622	4,952	5,326	6,003
Population (year-end, m)	21.1	21.2	21.3	21.4	21.6
Exchange rate (yr avge, USD-LCU)	155.4	158.4	161.4	164.4	162.4
Current Account in USDbn	-3.2	-3.4	-4.1	-4.5	-2.5
Current Account (% of GDP)	-3.5	-3.5	-3.9	-3.9	-1.9
FX reserves (year-end, USDbn)	7.1	7.0	7.1	7.8	8.5
Import Cover (months)	3.3	3.1	3.0	3.1	3.1
Inflation (annual avge, %)	5.0	5.5	5.5	5.7	5.8
Govt Balance (% GDP)	-4.8	-4.5	-4.3	-4.3	-4.2

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Sri Lanka	Bangladesh	India	Pakistan	US
Income per Capita (USD)	4,324	1,797	2,164	1,724	61,495
Country Population (m)	21.1	166.4	1,322.5	201.0	326.8
Internet users (% of population)	32.1	18.2	29.5	15.5	76.2
Real GDP Growth (% p.a., 2018 - 2027)	3.5 - 5.5	5.0 - 6.0	6.0 - 8.0	3.0 - 5.0	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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Sales

Email: countryinsight@dnb.com

Telephone

UK: +44 (0)1628 492700

US: +1 800 234 3867

Rest of World

contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

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