

BEST'S COUNTRY RISK REPORT

Sri Lanka CRT-4

August 22, 2018

Region: Asia

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Sri Lanka, a CRT-4 country, has a moderate level of economic risk and high levels of political and financial system risk. Under IMF guidance, the country has implemented critical reforms and has worked to put government finances on a sustainable track. The economy grew 3.1% in 2017, slowed by the impact of natural disasters; growth levels are expected to increase slightly towards 5% over the medium term. Inflation reached 6.5% in 2017 but is expected to moderate to 4.8% in 2018 and remain broadly stable.
- The map depicts the countries A.M. Best evaluates in the region. The countries in South Central Asia are all categorized as CRT-3, CRT-4 or CRT-5 by A.M. Best.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: South Central Asia

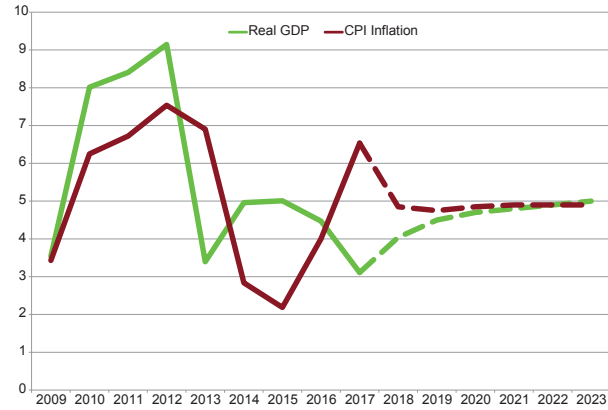
- India, the largest country in South Central Asia, has been the fastest growing major economy in the world in recent years, surpassing China.
- Heightened geopolitical tensions in the region have the potential to hold back economic growth through subdued foreign investment. Additional headwinds include low levels of wealth, endemic corruption, underdeveloped tax systems and regulations, infrastructure deficiencies, cumbersome bureaucracy that can be a major impediment to doing business, and a high likelihood of natural disasters.
- The region is highly vulnerable to global financial conditions. The monetary normalization process poses risks to financial stability across the region owing to an increase in financing costs, the potential for significant capital outflows, and volatility in exchange rates.
- High levels of non-performing loans have been a long-standing concern and have the potential to hurt credit growth and investment.

Vital Statistics 2017		
Nominal GDP	USD bn	87.59
Population	mil	21.4
GDP Per Capita	USD	4,085
Real GDP Growth	%	3.1
Inflation Rate	%	6.5
United Nations Estimates		
Literacy Rate	%	92.6
Urbanization	%	18.5
Dependency Ratio	%	51.2
Life Expectancy	Years	76.9
Median Age	Years	32.8
Insurance Statistics		
Insurance Regulator	Insurance Regulatory Commission of Sri Lanka	
Premiums Written (Life)	USD mil	458
Premiums Written (Non-Life)	USD mil	530
Premiums Growth (2016 - 2017)	%	n.a.
Regional Comparison		
	Country Risk Tier	
Sri Lanka	CRT-4	
India	CRT-4	
Papua New Guinea	CRT-5	
Vietnam	CRT-4	
Malaysia	CRT-3	
Indonesia	CRT-4	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



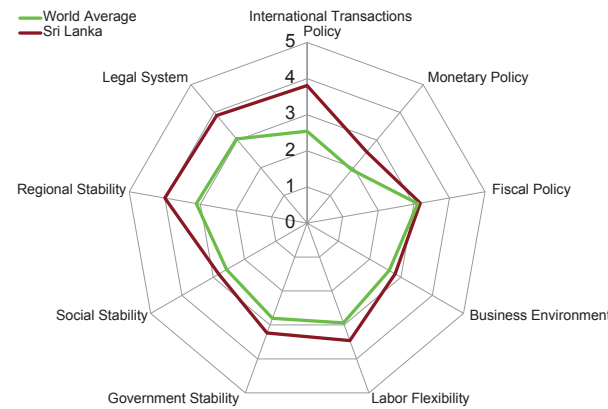
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

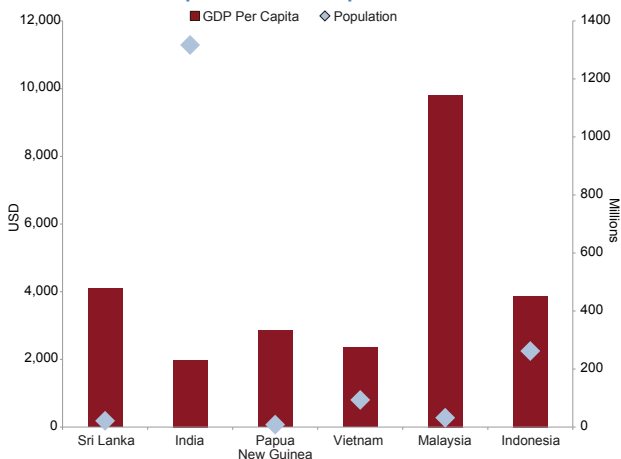
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- Sri Lanka is a lower middle income country transitioning from a rural and agriculture-based economy to an urban and industrial one. Agriculture accounts for 15% of GDP and employs a third of the workforce. Industrial exports have expanded rapidly, accounting for nearly 80% of the country's exports.
- Sri Lanka has made remarkable improvements in reducing poverty, however the economy was impacted negatively by natural disasters in 2017. The disasters highlight the need to build physical and fiscal resilience against frequent, severe weather conditions.
- The government is constrained by a persistent budget deficit and seeks fiscal consolidation. The recently passed Inland Revenue Act increases tax rates for foreign investors. The introduction of incentives promoting investments remains unlikely, given the government's fiscal condition.

Political Risk: High

- The government is led by President Maithripala Sirisena and a coalition between the United National Party (UNP) and the Sri Lanka Freedom Party (SLFP).
- Coalition disagreements have escalated since the 2015 elections owing to conflicts of interest and varying policy priorities, causing deadlocks in passing legislation and delays in critical reforms. Nonetheless, the two parties are likely to maintain the coalition in the next election.
- The government is likely to support judicial independence. Judicial procedures are lengthy, although the cost is relatively low. Contract enforcement is poor, ranking 165 out of 190 countries according to the World Bank. Corruption and bribery remain concerns unlikely to be addressed adequately due to the political deadlock.
- The risk of social unrest is elevated, and violence is increasingly likely due to a lack of tangible improvements by the government. There is also concern over the growing role of Chinese companies in key infrastructure projects.

Financial System Risk: High

- The insurance industry is regulated by the Insurance Board of Sri Lanka. The banking industry is regulated by the Central Bank of Sri Lanka.
- The country's main financial vulnerabilities include a high current account deficit, public debt, and private borrowing, as well as declining foreign reserves due to weakened external demand and falling remittance inflows.
- The IMF has recommended that the central bank adopt more prudent monetary policies to resist shocks. The government should also focus on building foreign reserves. Structural reforms to increase market efficiency and competitiveness are also crucial for sustained growth.
- Depreciation pressure and inflationary pressure are both elevated, although inflation is projected to stabilize over the medium term.