

## Large fiscal and current account deficits



### General Information

<b>GDP</b>	USD59.4 billion (World ranking 69, World Bank 2012)
<b>Population</b>	20.33 million (World ranking 57, World Bank 2012)
<b>Form of state</b>	Republic
<b>Head of government</b>	Mahinda Percy RAJAPAKSA
<b>Next elections</b>	2016, presidential and legislative



### Strengths

- Sound economic growth, despite the currency crisis of 2000/2001 and global downturn in 2009
- Tourism revenues and workers' remittances provide hard currency inflows
- Economic policies are broadly supportive of business and economic growth

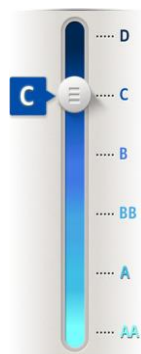
### Weaknesses

- Ethnic tensions remain a threat to stability and growth prospects
- Fractured nature of the political system, with generally weak coalition governments
- Vulnerability of export base (42% textiles and clothing)
- Relatively strong inflationary pressures
- Large fiscal deficits and high public debt
- Banking system weaknesses
- Large current account deficits since 2011

### Country Rating

C3

#### Country Grade



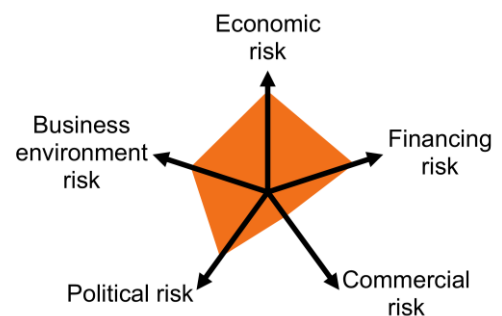
High risk

#### Country Risk Level



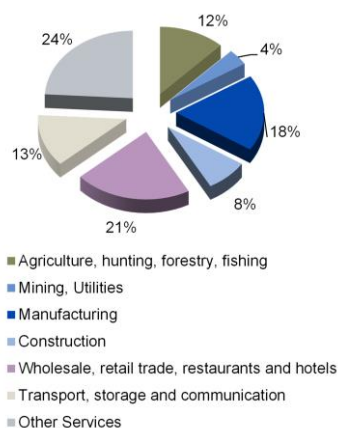
Low risk

### Risk Dimensions



## Economic Structure

### GDP breakdown (2011)



Sources: UnctadStat, IHS Global Insight, Euler Hermes

### Trade structure (% of total, 2011)

Exports	Rank	Imports
United States	21% 1	24% India
United Kingdom	11% 2	16% China
Italy	6% 3	7% Singapore
Belgium	5% 4	7% Iran (Islamic Republic of)
India	5% 5	5% Japan

Exports	Rank	Imports
Articles of apparel & clothing accessories	42% 1	19% Petroleum, petroleum products and related materials
Coffee, tea, cocoa, spices, and manufactures thereof	17% 2	11% Textile yarn and related products
Rubber manufactures, n.e.s.	7% 3	10% Road vehicles
Non-metallic mineral manufactures, n.e.s.	5% 4	5% Non-metallic mineral manufactures, n.e.s.
Miscellaneous manufactured articles, n.e.s.	4% 5	3% Specialised machinery

## Economic Forecast

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	3.5	8.0	8.2	6.3	6.3	6.8
Inflation (% end-year)	5.0	6.8	4.9	9.2	8.0	6.5
Fiscal balance (% of GDP)	-9.9	-8.0	-6.9	-6.5	-5.8	-5.5
Public debt (% of GDP)	86.1	81.9	78.5	79.3	79.9	78.0
Current account (% of GDP)	-0.7	-2.3	-7.9	-5.8	-5.7	-5.2
External debt (% of GDP)	42.4	42.7	40.5	48.7	49.3	50.7

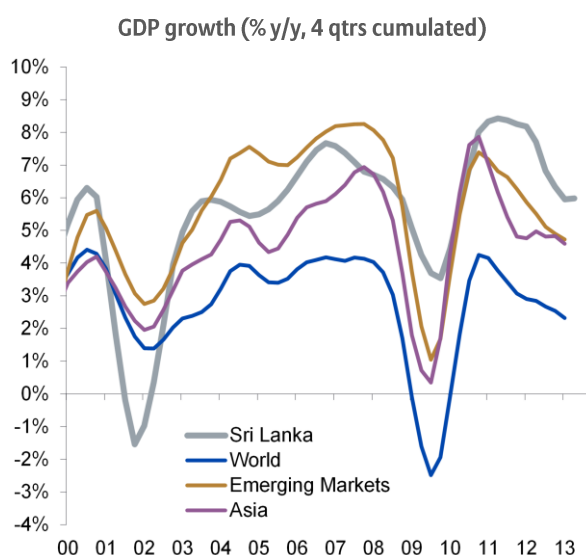
Source: IHS Global Insight, national sources, Euler Hermes

## Economic Overview

Annual real GDP growth decelerated from around +8% in 2010-2011 to +6.3% in 2012, as a result of a sharp slowdown in external trade activity and some monetary tightening. Real exports contracted by -1.9% in 2012 (+10.8% in 2011) and real imports by -4.6% (+27% in 2011). Details on domestic demand are not available, but private consumption is a key growth driver, fuelled by rising incomes and workers remittances. EH forecasts annual GDP growth of about +6.3% in 2013, as global demand remains subdued, and an acceleration to +6.8% in 2014.

Headline inflation accelerated from 4.9% at end-2011 to 9.2% at end-2012 and 9.8% y/y in February 2013, before easing to 6.1% y/y in July 2013. The key policy interest rate was accordingly raised from 7% at end-2011 to 7.75% in April 2012. From December 2012 to May 2013, the rate has been cut in two steps to 7% as inflationary pressures have declined. Private sector credit growth has fallen from unsustainably high 35% y/y at end-2011 to reasonable 9% y/y in May 2013.

Public finances are very weak and remain a cause of concern. Fiscal deficits have always been large, recording an annual average of around 8% of GDP in 1990-2010. More recently, the annual deficit is estimated to have declined somewhat to 6.9% of GDP in 2011 and 6.5% in 2012 and is forecast to decrease to just below 6% in 2013-2014. Public debt has slightly fallen from a record high of 103% of GDP in 2001 but

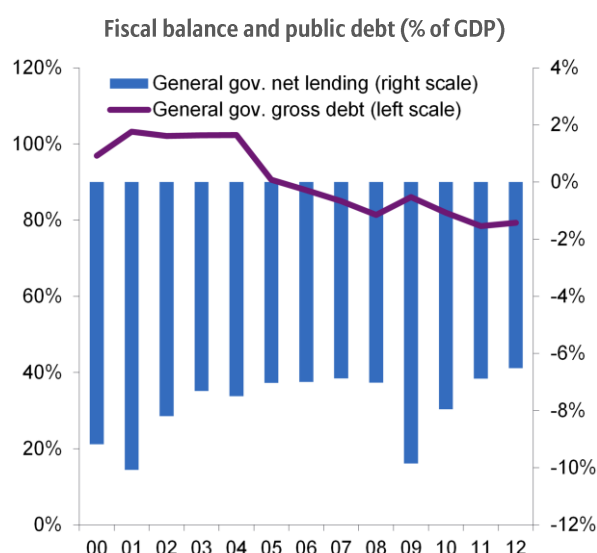


Sources: IHS Global Insight, Euler Hermes

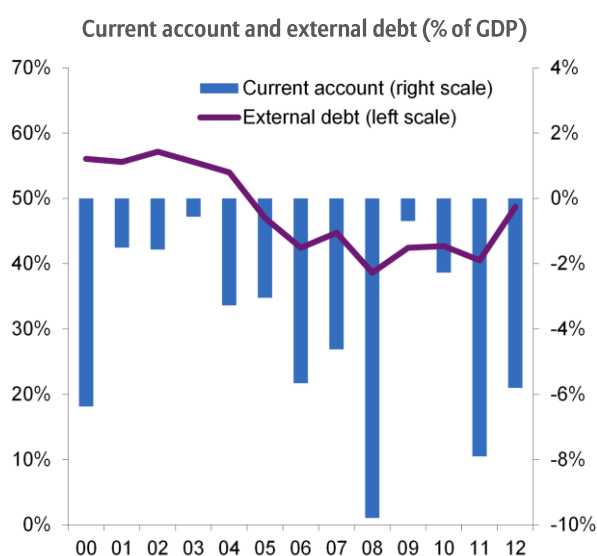
## Economic Overview (continued)

has remained high overall at around 80% of GDP currently. Moreover, the debt structure has deteriorated as the share of external public debt has risen to almost 50% from 40% in 2008.

The external position is also weak. The current account deficit widened markedly to 7.9% of GDP in 2011 and remained large at an estimated 5.8% in 2012. The reason was a sharply deteriorating trade deficit while net workers' remittances inflows reached around 8% of GDP. EH forecasts the current account deficit to remain above 5% of GDP in 2013-2014. Gross external debt is relatively high at around 50% of GDP or 150% of export earnings. Foreign exchange reserves have recently fallen from USD7.1bn in August 2012 to USD5.8bn in May 2013, such that import cover has declined to just below three months.



Sources: IHS Global Insight, Euler Hermes



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