Economic Report 2022 - 23

Sri Lanka

October 2023

Executive Summary

In 2022 a US$ 54 Billion debt default and foreign exchange crisis led to countrywide protests causing the resignation of former President Gotabaya Rajapaksa and his government. The primary cause of this crisis was a lack of governance including financial discipline exacerbated in the last 20 years by a populist, protectionist and debt driven development economic model. This further accelerated due to the COVID pandemic between 2020 – 2021.President Ranil Wickremesinghe now heads a government which includes the Rajapaksa's and must implement a non-populist IMF program which will increase taxes, reduce the public service, privatize State Owned Enterprises (SOE) and introduced fiscal discipline to the Sri Lankan State and economy.

The new government secured a US$ 3 Billion IMF bailout program after all its external creditors agreed to take part in a debt restructuring process. Up to 2024 the IMF has thus far approved and paid 2 tranches amounting to US$ 670 Million of the 4-year facility. Additionally, in Mid-2023 the World Bank also approved US$ 700 Million more for budgetary and welfare support for Sri Lanka.

Sri Lanka's reserves have rebounded to US$ 2.6 Billion in July 2023 relative to a paltry US 50 Million in 2022 but it is still made up of loan deferrals, currency swaps and credit lines from bilateral partners. However, severe disruptions to the distribution of essential goods and services such as food, medicines, electricity, cooking gas and fuel have stopped. The sporadic violence and protests that led to political upheaval have stopped because basic needs are being guaranteed. But it is too early to say that Sri Lanka is truly on the road to a total recovery and there are no guarantees of long term stability. The government has instituted tough tax reforms and slightly increased its foreign exchange inflow through import controls but crucial legislation fiscal discipline and the sale of underperforming SOE's have not passed. Furthermore, new legislation related to social welfare and reconciliation is faced with resistance from nationalistic groups and socialist elements. Sri Lanka will have to pass these reforms and rely on delicately balancing its economic diplomacy in the Indian Ocean between the Quad group of countries including India and China to succeed. Heading into 2024 there will also be Presidential elections and tougher domestic debt restructuring that the government will have to overcome.

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1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

Sri Lanka's 2022 economic collapse and political crisis occurred due to an overall failure of State governance. There was fundamental lack in a political consensus between political parties and the populace about the ideological parameters of Sri Lanka's economy and development. In 2023, a newly formed government had to manage the economic crisis and ***US$ 54 Billion debt restructuring process*** *with the assistance of multilateral and bilateral partners on the short term to so that a longer term economic recovery and political stability can be achieved. 2022 was the deepest GDP contraction in Sri Lankan history with a total of 7.8% compared to 3.5% growth in 2021. The overall size of the economy contracted by 12% or US$ 11 Billion from 88.5 billion in 2021 to US$ 77 Billion in 2022 due to a* ***sharp depreciation of the Sri Lanka Rupee****. For example, between March and April 2022 the Sri Lankan Rupee depreciated by 44% within a few weeks causing hyper-inflation. Year on Year (YoY) headline inflation accelerated to 73% in September 2022 before moderating to 59% in December 2022 compared to the average of 14% in 2021. Things have not got better in terms of GDP growth in 2023 with the 1st Quarter registering an 11.5% contraction although YoY headline* ***inflation*** *has eased to 25% leading up to May 2023. Crucially, the government has been able to re-establish the supply chain or essential goods and services. It has managed to pay for imports and organized debt moratoriums with bilateral partners while securing around US$ 4 Billion in debt bailouts from the IMF and World Bank (WB). The situation can be summed up by the sharp increase in labour migration in 2022 in which departures reached 311 269 the highest figure since 2014 reflecting a staggering increase of 155% compared to 2021.*

Since independence from colonial rule in 1948 and the formation of a modern Sri Lankan state the direction of Sri Lanka's political economy gravitated around two competing political blocs encapsulated in the Liberal - Open Market oriented United National Party (UNP) and the Socialistic - Protectionism oriented Sri Lanka Freedom Party (SLFP). After years of rivalry, these two parties tried and failed to cohabitate and work in a coalition government from 2015 to 2019 when they were both opposed to the Rajapaksa political dynasty. They also tried to establish a focused 'mixed market' economic model for Sri Lanka but their ideological differences were to deep resulting in multiple political crises such as the 52 Day Political Coup in 2018 and the Easter Sunday Terrorist Attacks in 2019. Ultimately, this fed into economic instability and despite former President Gotabaya Rajapaksa coming to power in late 2019 on a platform of stability, strong national security and a "system change" Sri Lanka was already locked in a spiral of economic and political instability when the COVID pandemic accelerated its economic decline. The Rajapaksa government did also make some crucial policy mistakes. It weakened parliamentary oversight, checks and balances through independent commissions on preventing corruption, policing, human rights, right to information, procurement, judicial services and state auditing. And it became apparent through 2020 to 2022 that the Rajapaksa led Sri Lanka Podujana Peramuna (SLPP) government did not appear to have a clear economic vision in its policy framework. It was caught in a trap that has been plaguing Sri Lankan governments for decades in that it did not realize the true gamut of Sri Lanka's economic risks and it continued to foster a corrupt political system and state. Sri Lanka has also not been able to deal with high levels of corruption for decades and Global Financial Integrity (GFI) estimates that Sri Lanka has at least US$ 20 Billion the equivalent of approx. 20% of its GDP in illicit financial flows.

The SLPP eventually splintered into many factions leading to its abrupt collapse between May and July 2022 and former President Gotabaya Rajapaksa had to flee Sri Lanka after mobs of people stormed the Presidential Palace on 09 May 2022. He subsequently resigned and Prime Minister Ranil Wickremesinghe from the United National Party (UNP) a total outsider with only 1 seat in Parliament became the head of a 120 member SLPP government. Since then the newly formed SLPP – UNP coalition government has begun the task of painfully rolling back populist policy decisions taken by the Rajapaksa led government such as reversing a number of tax relief measures on construction and telecommunications levies with tax exemptions for the agricultural, fisheries, livestock and IT sectors, the complete removal of the Capital

*Gains Tax, Nation Building Tax, withholding tax on interests and a Debt Tax on banks and institutions. These measures are also part of a **US$ 3 Billion IMF bailout** approved in March 2023 which includes substantial revenue-based consolidation including rate increases and base broadening and energy pricing reforms, monetary policy tightening focused on reducing the risk of inflation, gradually restoring market determined and flexible exchange rate which is carefully sequenced and establishing social safety nets which are strengthened through increased spending, widened coverage and improved targeting. The IMF is also supporting Sri Lanka in its debt restructuring strategy and Sri Lanka is the first country in South Asia to undergo an IMF Governance Diagnostic exercise (published in September 2023). Sri Lanka's economic recovery also involves a sophisticated and complex approach to geo-politics because it is locked in a proxy 'Cold War' in the Indian Ocean between China and the Quad group of countries; India, the USA, Japan and Australia. China currently holds 13% of Sri Lanka's total debt and is only third behind the 47% owed through ISBs and 22% due to multilateral financial institutions. **Negotiations on restructuring Sri Lanka's debt remains complicated** because it sees debt as collateral or leverage in its geo political ambitions in Sri Lanka and the Indian Ocean. Sri Lanka has a number of strategic assets which may be "leveraged" in exchange for bilateral support including the Chinese funded Hambanthota Port and Port City in Colombo and the largest natural harbour in the world in the Eastern Province of Trincomalee while its Northern Provincial coast is only 27 kilometres away from South India.*

2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

*There were contractions in all Sri Lankan economic sectors in 2022 due to the **energy crisis** and shortages in goods and raw materials triggered by a lack of foreign exchange liquidity in the banking system, combined with subdued demand conditions triggered by a sharp fall in purchasing power and hindered industry activities. This has only continued in 2023. Nevertheless, the service sector remained dominant in Sri Lanka's economy making up 60% of GDP and 47% of all labour. The service sector itself however contracted by 2% due to the energy crisis, supply chain disruptions for goods and high inflation. Even the IT sector which has only seen growth in Sri Lanka declined along with real estate, insurance, financial, health and professional services. Industries come second with 27% contribution to GDP with 26% of labour working in the industrial sector mainly in manufacturing, and construction to a certain degree. There was a 16% contraction in industry due to same overall contractions caused by the economic crisis. The main areas that were affected mining and quarrying, electricity, gas, steam, and air conditioning supply. Agriculture employs 26% of Sri Lanka's labour force while its contribution to GDP has always been around 7% in the last few decades. The agricultural sector is labour intensive and badly in need of new technology and possibly mechanization. A 4% contraction in agriculture was caused by severe supply chain disruptions in agricultural inputs fertilisers, agrochemicals and a substantial increase in production cost, and disruptions in fuel badly affecting fishing, rice cultivation and animal production. Overall, agriculture did stage a slight recovery towards the end of 2022 and into 2023 due to the resumption of agricultural inputs as the foreign exchange crisis became better.*

*Switzerland's Import Promotion Program **(SIPPO)** working with State Secretariat for Economic Affairs (SECO) recently a completed an Memorandum of Understanding (MOU) with Sri Lanka's Export Development Board (EDB) to improve its export market research on Switzerland and select European Free Trade Association (EFTA) and European Union (EU) countries in late 2023. The program consisted of CHF 100,000 in Swiss assistance to gain business knowledge about European markets. The main focus areas of the study was fish, seafood, processed food and value added textiles categories and between July and August 2023 SIPPO and EDB conducted 3 webinars in Sri Lanka as a part of the dissemination strategy. A number of Swiss companies operate in Sri Lanka with a vast presence across sectors such as agricultural manufacturing, pharmaceuticals and fertilizer and industrial manufacturing focused on electrical equipment. **Switzerland has around US$ 450 Million in Foreign Direct Investments (FDI) in Sri Lanka** making it the 9th biggest source of overall FDI's to Sri Lanka. There are potential investors with an interest in renewable energy and tourism but they are more focused on long term development instead of rapid expansion* *due to the economic crisis. Traditional Swiss imports to Sri Lanka include electrical machines, chemicals and pharmaceuticals, textiles and garments, clocks and watches. Swiss companies would be well poised to take advantage of these sectors through investments if the market potential to export to Europe from Sri Lanka expands considerable in the upcoming years. Overall Switzerland is well established in terms of its trade links to Sri Lanka and is well placed to participate in Sri Lanka's economic development. However, due to Sri Lanka's economic downturn investing in Sri Lanka presents a degree of risk at this current stage because Sri Lanka's domestic market is weak and its main potential lies in it being a potential manufacturing and industrial hub to cater to other countries in the Indian Ocean region. There are indications in bilateral economic discussions between Sri Lanka and India to develop transport and energy interconnectivity. But the Sri Lankan economic crisis stands as an impediment to investment with all indicators pointing towards a slow recovery. In time, as Sri Lanka's economy starts to recover past 2024 there may be opportunities for Swiss companies focused on the renewable energy and organic agriculture sectors in terms of the domestic market. But these will have to be long term investments with a focus of about 5 – 10 years in the return in investment. All investors although prone to risk may want to look more closely at Sri Lanka's free market zones including within the Colombo Port City and Southern Port of Hambanthota. As mentioned in the executive summary, there is a possibility that the Eastern Port of Trincomalee which is strategically positioned to cater to the East Indian market and South East Asia may also develop potential as a free market zone. To better understand the investment climate in Sri Lanka, businesses could contact the Board of Investment (BOI) of Sri Lanka.*

3 FOREIGN ECONOMIC POLICY

3.1 Host country's policy and priorities

Since the 1970's Sri Lanka's economic policy has constantly attempted to transition towards making its external sector more export oriented with a focus on reorienting trade agreements. Sri Lanka is a member of the World Trade Organization. It also has a limited number of bilateral free trade agreements with partner countries in the region such as India and Pakistan. It is party to multilateral free trade arrangements in the South Asia region such the South Asian Preferential Trade Agreement (SAPTA). However, liberalization has been relatively slow and there are no multilateral initiatives with a significant impact beyond the South Asia region. This is because Sri Lanka's economic policy was determined by two competing political ideologies in the form of its two main political blocs which push the free market or protectionism at any given time depending on which faction is in power. These competing interests created a unstable 'hybrid economy' which transitioned between 'open' and 'closed' every 5-10 years creating a degree of policy instability which eventually led to the economic crisis of 2022. Over a 21 year period, Sri Lanka's export of goods and services fell to 17% of GDP in 2022 from 39% of GDP in 2000 while imports have fallen from 49% of GDP to 18% according to the World Bank (WB) and the Central Bank of Sri Lanka (CBSL) during the same period. Sri Lanka's current account deficit increased in 2021 to -9.5% of GDP in nominal terms before reducing to -6.6% in 2022. It remains at its worst levels since 1980 when it was -16.4% and Sri Lanka faced a similar type of economic collapse. <u>Due to its economic collapse Sri Lanka drastically cut down on non-essential and non-export oriented imports.</u> It has not been able to improve value added exports. Redefining its foreign economic policy has begun out of necessity due to the economic collapse. This is because it will have to rely on currency swaps, loan deferrals and credit lines from India, China and other multi-lateral and bilateral donors for imports. Sri Lanka will have to redefine and enter into a number of pending bilateral negotiations over economic agreements with bilateral partners. The Comprehensive Economic Partnership Agreement (CEPA) with India would be a good example of this. Its finalization has been delayed by Sri Lanka for years in a bid to address concerns of the local business community. The other would be a Sri Lanka – China Free Trade Agreement (SLCFTA) which has been pending for about 10 years. Sri Lanka's CEPA with Pakistan also remains under negotiation with no significant progress in the period under review although the target date for its conclusion was 2016. Sri Lanka does have existing bilateral free trade agreements. These include the India-Sri Lanka Free Trade Agreement (ISFTA) which provide tariff concessions 4,554 for products on both sides, the Pakistan-Sri Lanka Free Trade Agreement (PSFTA) with tariff concessions for 5,310 *products. There is also the Singapore-Sri Lanka Free Trade Agreement (SLSFTA) which came into force in 2018 and covers 80% tariff concessions for all tariff lines coming into effect over 15 years. In terms of multilateral agreements Sri Lanka is a part of the South Asian Free Trade Agreement (SAFTA) which provides tariff concessions 4,744 products with a total import value of approx. US$ 4 million annually while exports are approx. US$1 Million. Sri Lanka benefits from Generalized System of Preferences concessions. It reobtained additional concessions granted by the EU under its GSP+ facility in 2017, due to improvements in human rights. The GSP extension by the USA, which was under review for workers' rights issues was granted again in 2022. But these agreements may come under threat if there is a significant deterioration in Sri Lanka's human rights record in 2023.*

3.2 Outlook for Switzerland (potential for discrimination or comparative advantage)

Sri Lanka and Switzerland have an agreement to promote protection of investments since 1981 and an agreement to avoid double taxation since 1983 in revision to include OECD standards. Despite a serious bilateral crisis which began in late 2019 and lasted until mid-2023, there is no significant risk for the sole discrimination of Swiss export or imports. However, due to a lack of foreign exchange Sri Lanka has instituted a number of import restrictions and tariffs which discriminate a number of imports including Swiss imports. Despite a gradual lifting of import restrictions as Sri Lanka heads towards an economic recovery Swiss traders should study these regulations closely before engaging in business and trade in Sri Lanka.

4 FOREIGN TRADE

4.1 Developments and general outlook

In 2022 India maintained its position as the main trading partner of Sri Lanka. But it remains closely followed by China and the USA. These three countries make up 42% of the total bilateral trade with Sri Lanka. Sri Lanka has trade surpluses with the USA, UK, Germany and the Netherlands while it had large trade deficits with China, India, the UAE, Malaysia and Singapore. The USA made up 25% of all exports followed by the UK with 7% and India with 6%, Germany with 6% and Italy with 4%. This was mainly from the garments industry. China made up for 23% of all imports closely followed by India with 22% and the UAE with 6%. Sri Lanka's main import was petroleum products. In 2022 Sri Lanka's trade deficit moderated to -1.9% compared to -3.8% of GDP in 2021 according to the Central Bank of Sri Lanka (CBSL). The primary reason for the moderation of the trade deficit in 2022 according to the CBSL was a reduction in import expenditure due to restrictive trade policies, sharp depreciation of the exchange rate and tight monetary and fiscal conditions pressured on Sri Lanka to manage pressures in the external sector. Merchandise exports increased driven by an increase in industrial exports including apparel. A surplus in services increased a little due to tourism earnings, while inflows to almost all other services sector subcategories recorded a notable decline during the year. Workers' remittances improved towards the 2nd half of 2022. Sri Lanka always had a systemic problem characterized by continuous increase in domestic demand for imported goods and higher interest payments outpacing an improvement in the export of merchandise goods. This was one of the primary factors that led to its economic collapse. In 2022 the BoP deficit reduced by 36% to US$ 5 Billion compared to a rise in 2021 by 26% year-on-year. This was mainly due to import restrictions that temporarily suspended imports of "non-priority goods" and placed a large number of import items on a licensing regime. The IMF believes that while these restrictions helped relieve BoP pressure, they inhibited trade and adversely affected economic growth, distorted markets. The IMF believes that Sri Lankan authorities should phase out import restrictions within a set time period. It is not a part of the conditions that Sri Lanka had to adopt to receive a US$ 3.4 Billion bailout.

4.1.1 Trade in goods

As mentioned earlier the external current account deficit narrowed in 2022 compared to 2021, with a significant contraction in the merchandise trade deficit, recovery in trade in *services, a slight moderation in the primary income account deficit despite a contraction in the surplus in the secondary income account. The trade deficit contraction in 2022 was mainly due to an increase in earnings from merchandise exports and a reduction in merchandise import expenditure. Ultimately, the moderation of economic activity and policy measures to curtail imports amidst the severe BOP pressures did pay off. The increase in exports earnings was due to a depreciation of the Sri Lanka rupee against the US Dollar primarily reflected in the trade of garments, machinery and mechanical appliances, and gems, diamonds and jewellery. Meanwhile, merchandise imports were reduced due to a contraction in consumer goods and investment goods, while importation of intermediate goods remained at similar levels, compared to the previous year. The reduction in imports was primarily due to several measures introduced by the Government and the Central Bank to prioritise essential imports amidst the unprecedented shortage of foreign currency liquidity in the banking system, as well as the reduction in import demand associated with the contraction of economic activity and increase in import costs due to the sharp depreciation of the exchange rate.*

Despite heightened global and domestic challenges, merchandise exports recorded a notable increase and surpassed US dollars 13 billion during 2022 growing by almost 5% compared to 2021. This growth was supported mainly by the favourable exchange rate, priority given for export industries when sourcing imported inputs and the rise of global commodity prices. This was mainly due to an increase in both industrial and mineral exports. There was a decline in agricultural exports. The USA continued to be the single largest buyer of Sri Lankan exports, with more than US$ 3.3 Billion worth of exports accounting for 25% of total exports followed by the UK with 7%, India 6%, Germany 5% and Italy 4.9%. Merchandise imports declined due to a lack of foreign exchange caused by Sri Lanka's Balance of Payments crisis, a fall in local demand and depreciation of the Sri Lanka Rupee combined with administrative measures to prioritise imports. Spending on imports declined by 11% to US$ 18 Billion in 2022 from US$ 20 Billion in 2021 driven down by a decline in investment goods and non-food consumer goods. Due to prices of global commodities including oil being high in 2022 the expenditure on intermediate goods led mainly by fuel imports remained high. Despite an overall decline in all imports, Asian countries remained to be the major source of Sri Lankan imports. India regained its position as the largest source of imports since 2018 making up 25% of all imports recording a total US$ 4.7 Billion supported by imports made under credit lines offered by India. This is increase of 2.4% from 2021 mainly due to imports of petroleum products and rice. China fell to 2nd place with 18% of all imports. Expenditure on most major import items from China, such as machinery and equipment, medical and pharmaceuticals (COVID-19 vaccines), telecommunication devices (mainly mobile phones), and building materials declined in 2022. Malaysia remained in 3rd with 5.3% with the main imports being petroleum products making 65% followed by chemical products and food preparations. Singapore and the UAE were at 4th and 5th positions with the major import item being petroleum products in 2022.

4.1.2 Trade in services

Services contracted by 2% due to them being heavily affected by the prolonged energy crisis, a limited availability of goods and high inflation in 2022, compared to a growth of 3.5% in 2021. The overall contraction was driven by declines in real estate, insurance, financial, human health and professional services. IT programming, programming and broadcasting, and wholesale and retail trade activities also contracted in 2022. However, accommodation, food and beverage services grew significantly mainly due to the post-pandemic recovery in tourist activities, while transportation, telecommunication, education, public administration, other personal services, and postal and courier services also recorded positive contributions.

4.2 Bilateral trade

4.2.1 Trade in goods

There is a discrepancy between the Sri Lanka to Switzerland customs import statistics and the export statistics. Switzerland figures from Swiss Customs show imports of US$ 236 Million while the Central Bank of SL lists only US$ 147 Million in exports to Switzerland. While

Swiss customs statistics indicate exports of US$ 92 Million, the Central Bank of Sri Lanka show imports to the tune of US$ 105 Million from Switzerland. Note that Sri Lanka has been mentioned in the Global Financial Integrity 2022 Report as having a serious problem on undervaluing and overvaluing during trade invoicing. Swiss data indicates a growing deficit in favour of Sri Lanka in the balance of trade in 2022 totalling around US$ 143 Million which is 18% higher than the deficit from 2021 which was US$ 116 Million. Making up 47% of total imports, textiles, clothing and shoe merchandise imports to Switzerland from Sri Lanka experienced a slight 2% decrease. This was in comparison to the 6% increase of machine and electrical imports, which make up 26% of all imports from SL to Switzerland. Forestry and agricultural and seafood products which make up 12% of total imports reduced by 2%. There was a drop of 0.9% in precision instruments, clocks and watches and jewellery imports to Switzerland which make up 8% of total imports. Meanwhile, there was an increase in exports by 12% to Sri Lanka mainly due to increase in machines, electronics and appliances which consist of 67% of all exports from Switzerland to Sri Lanka. Interestingly, machine and electronic exports to Sri Lanka continues to grow replacing textiles, clothing and shoes of which made up 20% in 2020 and then fell to 1% in 2021 and 2022. Chemical and pharmaceutical products experiences another sharp drop of -33% and fell to 13% of all exports to Sri Lanka in 2022 compared to 21% in 2021. Despite the economic crisis the number of Swiss tourists to Sri Lanka increased sharply by 77% to 13,260 compared to relative 2,974 Swiss tourists in 2021. This can be attributed to a global recovery in terms of tourism after the COVID pandemic. However it is tourism numbers are nowhere close to the levels seen between 2016 and 2019 when they averaged around 30,000 annually.

5 DIRECT INVESTMENTS

5.1 Developments and general outlook

Total Foreign Direct Investment (FDI) inflows increased by 34% to US$ 898 Million in 2022. Before its economic travails began in 2018 Sri Lanka received US$ 1.8 Billion in FDI's. In terms of overall FDI stocks China became the main investor with US$ 2.2 Billion overtaking Singapore which has invested US$ 2.1 Billion up to 2022. They are followed by India with US$ 1.9 Billion invested in Sri Lanka and Hong Kong with US$ 1.1 Billion. In 2022 India remained the top investor with US$ 238 Million followed by Mauritius which is closely associated with Indian companies also investing US$ 117 Million. From 2021 onwards India has provided Sri Lanka with US$ 4 Billion in currency swaps, credit lines and deferrals on humanitarian grounds due to Sri Lanka's economic crisis. With the total collapse of Sri Lanka's economy in 2022 and continuing economic troubles in 2023 there is a high likelihood that FDI's will be affected and reduced further. The IMF program for Sri Lanka states that it should achieve US$ 950 Million in 2022 and maintain over US$ 1 Billion in FDI's to meet program targets. China and India are the 2 biggest investors in Sri Lanka and the Sri Lankan government struggles to find a balance between these 2 competitive powers in the Indian Ocean. But the balance of power seems to be slowly shifting towards India with the Adani group backed by Indian Prime Minister Modi planning on investing around US$ 1 Billion in energy and ports. Sri Lanka will need the assistance of all major players in the Indian Ocean, such as the USA, Japan, European countries and Australia as well to mobilize large scale long term funding for manufacturing and infrastructure projects for the East and South of Sri Lanka. Both these areas contain strategic ports and locations for all countries in the Indian Ocean. With Sri Lanka's economic collapse and continuing economic instability there is a high likelihood that all major players in the Indian Ocean will attempt to gain control of these strategic assets. This will be further complicated as Sri Lanka tries to establish an International Debt Restructuring process and framework.

5.2 Bilateral investment

According to a survey conducted by the Embassy of Switzerland since 2011 the cumulative Swiss investments in the country amounted to US$ 550 million across approx. 25 companies. However, according to data from the Central Bank of Sri Lanka in 2022 Switzerland's total debt stock was around US$ 296 Million. According to Sri Lanka data Swiss FDI stocks have dropped by 45% to the current status within a 5 year period when it was US$ 543 Million in

2018. Switzerland has dropped from being the 8th biggest investor in 2017 to 14th place. It is currently unknown as to how the FDI debt stock came down except for the possibility that this reduction takes into account the exit of Holcim Cement from Sri Lanka. Sri Lanka's volatile economic situation starting in 2018 combined with the COVID pandemic 2020 – 2021 and economic collapse in 2022 affected every Swiss owned enterprise and this has continued into 2023. Nevertheless, Nestlé has a remarkable presence in Sri Lanka. It is implementing a multi-year new investment program of around US$ 100 million. There is also one or the other Swiss SME that is expanding its investment stock (e.g. Variosystems). The current government is also focusing on expanding into an Open Market Economic Model which is backed by IMF reforms to improve Sri Lanka's regulatory, financial management and business environment.

6 ECONOMIC AND TOURISM PROMOTION

6.1 Swiss foreign economic promotion instruments

Since 2004, the Swiss Business Circle (SBC) Sri Lanka brings together representatives of Swiss business interests. The circle meets 3 to 4 times a year, the Embassy providing the secretariat. The Embassy maintains direct contact with Switzerland Global Enterprises (S-GE), representatives. The Embassy maintains regular contacts with the various local Chambers of Commerce, the Board of Invest (BOI) and the Export Development Board (EDB) for Sri Lanka. These provide useful assistance whenever trade enquiries require a more substantial input. The Embassy assists Swiss companies and future investors as a "door opener" for trade and service opportunities. In the past years, the Embassy organized a number of workshops and projects with Swiss businesses, the Sri Lankan government and Sri Lankan businesses including specifically from the hospitality and tourism industry. In 2022 - 2023 Switzerland's Import Promotion Program (SIPPO) working in partnership with the State Secretariat for Economic Affairs (SECO) assisted Sri Lanka's Export Development Board (EDB) to broaden its horizons in terms of exports to Switzerland and selected European Free Trade Association (EFTA) and European Union (EU) countries in the fish, seafood, processed food and value added textiles categories with a CHF 100,000 program. The dissemination of this information to Sri Lankan stakeholders concluded in August 2023. Furthermore, SECO has also named Sri Lanka as a recipient of a CHF 13.5 Million Global Program on Textile and Clothing (T&C) targeted at shifting the industry towards green quality products and digitization. In Sri Lanka the T&C sector has national value because it represents 46% of national export revenue making it the most important export sector in the country. The sector will target USD$ 8 Billion achieving in revenue by 2025 from USD$5.9 Billion in 2022 with 350,000 Sri Lankans being employed in it, representing 33% of manufacturing related employment and benefiting around 600,000 to 1 million people indirectly, of which more than 80% are women from rural areas.

6.2 The host country's interest in Switzerland

There is potential for Switzerland as a tourist location, however only the elite class of Sri Lanka can afford tourism visits to Switzerland. Presently, the majority of visiting persons are relatives of the 55'000 strong Sri Lankan Diaspora living in Switzerland. A restrictive visa practice aims at controlling illegal immigration. With a new direct connectivity between Colombo and Zurich, operated on a seasonal basis by Edelweiss Airlines, there is a significant potential for increasing the number of Sri Lankan and Swiss tourists in both directions. There is also potential for cooperation between Sri Lankan and Swiss tourism schools and vocational training institute despite this COVID pandemic. This was demonstrated by a MOU signed in May 2021 between the Sri Lanka Institute of Tourism and Hotel Management and the Ecole Hoteliere de Lausanne (EHL) which was invited and supported by the State Secretariat for Migration (SEM) to be a knowledge partner and conduct a gap analysis study towards improving the quality of tourism education on par with international standards. The SIPPO and SECO programs initiated by Switzerland has also created a counter interest by Sri Lankan SME's and export companies to export products and establish officers in Switzerland to access Europe.

ANNEX 1 – Economic structure

Economic structure of the host country

	2018	2022
Distribution of GDP		
Primary sector	**7.0%**	**7.5%**
Manufacturing sector	**26.1%**	**27.5%**
Services	**57.7%**	**60.5%**
- of which public services	**-**	**-**

Distribution of employment	**2018**	**2022**
Primary sector	**26.1%**	**26.5%**
Manufacturing sector	**28.4%**	**26.5%**
Services	**45.5%**	**47.0%**
- of which public services	**-**	**-**

Source(s): Central Bank of Sri Lanka Annual Report 2022 & Department of Census and Statistics, Sri Lanka

ANNEX 2 – Main economic data

Host country's main economic data

	2020	2021	2022
GDP (USD bn)	**84.6**	**88.5**	**77.1**
GDP per capita (USD)	**3,858**	**3,997**	**3,474**
Growth rate (% of GDP)	**-4.6**	**3.5**	**-7.8**
Inflation rate (%)	**4.2**	**12.1**	**57.2**
Unemployment rate (%)	**5.5**	**5.1**	**4.7**
Fiscal balance (% of GDP)	-10.6	**-11.7**	**-10.2**
Current account balance (% of GDP)	**-7.5**	**-7.3**	**-6.4**
Total external debt (% of GDP)	**58.0**	**58.5**	**64.5**
Debt-service ratio (% of exports)	**35.2**	**30.7**	**15.3**
Reserves (months of imports)	**4.2**	**1.8**	**1.2**

Source: Central Bank of Sri Lanka 2022 Annual Report

ANNEX 3 – Trade partners

Trade partners of the host country Year: 2022

Rank	Country	Exports *from the host country* (USD million)	Share	Change [1]	Rank	Country	Imports *to the host country* (USD million)	Share	Change [10]
1	USA	3321	25.3%	+1.3%	1	India	4738	25.9%	+3.5%
2	UK	963	7.3%	-0.2%	2	China	3285	18%%	-5%
3	India	869	6.6%	0%	3	Malaysia	969	5.3%	+1.4%
4	Germany	742	5.7%	-0.4%	4	Singapore	871	4.8%	+1%
5	Italy	641	4.9%	+0.3%	5	UAE	666	3.6%	-3.2%
6	Netherlands	428	3.3%	-0.1%	6	South Africa	433	2.4%	+0.1%
7	Belgium-Luxembourg	310	2.4%	-0.3%	7	USA	378	2.1%	-0.4%
20	*Switzerland*	147	*1.1%*	*-0.1%*	28	Switzerland	105	0.6%	+0.1%
	EU	3035	23.2%	+0.2%		EU	1241	6.8%	-0.4%
	Total	13106	100%	-4.8%		Total	18291	100%	-12.8%

Source(s): Central Bank of Sri Lanka Annual Report 2022

[1] Change from the previous year in %

ANNEX 4 – Bilateral trade

Bilateral trade between Switzerland and the host country

	Export (CHF million)	*Change (%)*	**Import** (CHF million)	*Change (%)*	**Balance** (in million)	**Volume** (in million)
2017	91	-11.8%	150	+12.1	-59	237
2018	107	+18%	166	+10.4%	-59	273
2019	87	-18.9%	182	+9.5%	-95	269
2020	103	+18%	175	-3.8%	-72	277
2021 *(Total 1)**	**83**	**-18.9%**	**200**	**+14.2%**	**-116**	**283**
2022 (I-VI)**	**93**	**+12.0%**	**236**	**+18%**	**-143**	**329**

*) 'Economic' total (total 1): not including gold bars and other precious metals, currencies, previous stones and gems, works of art and antiques

**) Change (%) from the previous year

Exports	**2021** (% of total)	**2022** (% of total)
1. Machines, appliances, electronics	54.2%	67.9%
2. Chemical and Pharmaceutical products	21.6%	13.1%
3. Precision instruments, clocks, watches and jewellery	13.2%	7.5%
4. Metals	6.0%	5.1%

Imports	**2021** (% of total)	**2022** (% of total)
1. Textiles, clothing, shoes	50%	47.6%
2. Machines, appliances, electronics	20%	26.5%
3. Forestry and agricultural products, fisheries	14%	12%
4. Precision instruments, clocks, watches, jewellery	9.5%	8.6%

Source: Federal Office for Customs and Border Security

ANNEX 5 – Main investing countries

Main investing countries in the host country **Year: 2022**

Rank	**Country**	**Direct investment** (USD, stock)	**Share**	**Variation** (stock)	**Inflows over past year** (USD)
1	China	2214	15.95%	-0.045%	6
2	Singapore	2115	15.24%	-47.5%	111
3	India	1951	14.0%	+1.43%	238
4	Hong Kong	1122	8.0%	+1.2%	13
5	Netherlands	859	6.1%	-36.6%	85
6	Malaysia	699	5.0%	-24.5%	-110
7	United Kingdom	692	4.9%	+13.8%	102
8	Mauritius	583	4.2%	+14.9%	117
9	United Arab Emirates	425	3.0%	-4.4%	3
10	British Virgin Islands	386	2.7%	-12.8%	23
-	EU	-	-	-	-
11	*Switzerland*	296	*2.1%*	-34.3%	20
	Total	13877	100%	-18.0%	898

Source(s): Central Bank of Sri Lanka Annual Report 2022