Sri Lanka
The hub of South Asia
SRI LANKA AT A GLANCE

Capital (Commercial)  Colombo
Capital (Administrative)  Sri Jayewardenepura Kotte
Area  65,525 sq km
Population  21,409,381 (July 2017 est.)
Official Language  Sinhala, Tamil
Currency  Sri Lanka Rupee (LKR)
Time Zone  UTC/GMT+5:30

Source: Central Bank of Sri Lanka
STRATEGIC LOCATION
ECONOMIC FIGURES

Gross Domestic Product  USD 87.2 billion (3.1% growth vs 2016)
GDP per capita  USD 4,065
FDI Inflows  USD 1.7 billion
Exports  USD 11.3 billion
Inflation  6%
Gross Official Reserves  USD 7.9 billion

Sources: Central Bank of Sri Lanka, The Minister of Finance and Mass Media
ECONOMIC GROWTH

Gross Domestic Product

Source: Central Bank of Sri Lanka

Real GDP Growth (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.0</td>
<td>5.0</td>
<td>4.5</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: www.srilanka.ahk.de
EVOLUTION OF FOREIGN DIRECT INVESTMENT

Foreign Direct Investment Inflows (excluding loans)

US$ Million

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>933</td>
<td>894</td>
<td>680</td>
<td>897</td>
<td>1375</td>
</tr>
</tbody>
</table>

Foreign Direct Investment of BOI Enterprises (US$ million)

- Manufacturing: 247.7 (2016), 347.6 (2017)
- Services: 211.9 (2016), 317.8 (2017)

Source: Central Bank of Sri Lanka & Board of Investment Sri Lanka

www.srilanka.ahk.de
**EVOLUTION OF EXPORTS**

**Total Exports**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value in USD Bilion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>9.2</td>
</tr>
<tr>
<td>2013</td>
<td>9.9</td>
</tr>
<tr>
<td>2014</td>
<td>11</td>
</tr>
<tr>
<td>2015</td>
<td>10.2</td>
</tr>
<tr>
<td>2016</td>
<td>10.2</td>
</tr>
<tr>
<td>2017</td>
<td>11.4</td>
</tr>
</tbody>
</table>

**Top Export Destinations**

<table>
<thead>
<tr>
<th>Country</th>
<th>Value in USD Mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2,920.21</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,043.17</td>
</tr>
<tr>
<td>India</td>
<td>789.58</td>
</tr>
<tr>
<td>Germany</td>
<td>771.5</td>
</tr>
<tr>
<td>Italy</td>
<td>531.65</td>
</tr>
</tbody>
</table>

*(p) Provisional numerical value*
MAIN EXPORT PRODUCTS

Textiles and Garments (44.3%)

Tea (13.5%)

Spices 3.6%

Rubber and Rubber products (7.7%)

Petroleum Products 3.8%

Source: Central Bank of Sri Lanka & Sri Lanka Export Development Board
MARKET ACCESS IN REGIONS

Sri Lanka seeks to increase its access to the world’s most important markets in order to consolidate itself as the ideal export platform

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Countries and Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Trade Agreements – Bilateral</td>
<td>India, Pakistan, Singapore, China(Negotiation)</td>
</tr>
<tr>
<td>Free Trade Agreements – Multilateral</td>
<td>South Asian Association for Regional Cooperation – SAARC</td>
</tr>
<tr>
<td></td>
<td>Agreement on South Asian Free Trade Area - SAFTA</td>
</tr>
<tr>
<td></td>
<td>Asia Pacific Trade Agreement – APTA</td>
</tr>
<tr>
<td></td>
<td>Agreement on Global System of Trade Preferences - GSTP</td>
</tr>
<tr>
<td>Generalized System of Preferences Plus</td>
<td>European Union countries</td>
</tr>
<tr>
<td>Generalized System of Preferences</td>
<td>United States</td>
</tr>
</tbody>
</table>

Source: Central Bank of Sri Lanka & Sri Lanka Customs
IMPORT SECTOR

Total Imports

<table>
<thead>
<tr>
<th>Year</th>
<th>Value in US$ Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>19.1</td>
</tr>
<tr>
<td>2013</td>
<td>18.0</td>
</tr>
<tr>
<td>2014</td>
<td>19.4</td>
</tr>
<tr>
<td>2015</td>
<td>18.9</td>
</tr>
<tr>
<td>2016</td>
<td>19.1</td>
</tr>
<tr>
<td>2017</td>
<td>20.9</td>
</tr>
</tbody>
</table>

**Country** | **Value in USD Mn**
--- | ---
India | 4,495.82
China | 4,189.83
United Arab Emirates | 1,564.12
Singapore | 1,292.72
Japan | 1,038.51

Source: Central Bank of Sri Lanka & Sri Lanka Export Development Board
BILATERAL TRADE BETWEEN SRI LANKA AND GERMANY

<table>
<thead>
<tr>
<th>Year</th>
<th>SL Exports to Germany</th>
<th>SL Imports from Germany</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>450</td>
<td>253</td>
<td>197</td>
</tr>
<tr>
<td>2014</td>
<td>481</td>
<td>217</td>
<td>264</td>
</tr>
<tr>
<td>2015</td>
<td>529</td>
<td>285</td>
<td>244</td>
</tr>
<tr>
<td>2016</td>
<td>577</td>
<td>315</td>
<td>262</td>
</tr>
<tr>
<td>2017*</td>
<td>653</td>
<td>570</td>
<td>83</td>
</tr>
</tbody>
</table>

* Forecast deviations due to rounding

Source: Central Bank of Sri Lanka & Sri Lanka Export Development Board
www.srilanka.ahk.de
SRI LANKA’S APPLICATION FOR EU GSP+

Sri Lanka’s Export to the EU Region 2006-2017 in USD Mil.
MAIN INDUSTRIES AND INVESTMENT OPPORTUNITIES
OPPORTUNITIES

Maritime Sector
Sri Lanka’s location gains competitive advantage in the naval and maritime industries.

2.5% Contribution to National GDP (2017)
Expect 6% contribution by 2030

750 local shipping and freight forwarding and clearing agents

• Construction of new terminals
• Developing skills required for maritime industries
• Ship building and repairing industries
• Developing minor ports & connectivity
• Expanding related leisure activities
• Further research on exploring sea bed potential

• Rigging & offshore engineering
• Supply of spares, food, water and other goods
• Bunkering service
• Maintenance services
• Transshipments service

Source: Board of Investment Sri Lanka & Colombo Port Authority
OPPORTUNITIES

Energy Sector

Three primary sources

Thermal Power
Hydro Power
Renewable Energy

14,150GWh Annual Demand for Electricity

99.7% Grid Connectivity

- Developing & Promoting of Non conventional energy sources with improved technology

Source: Board of Investment Sri Lanka & Ministry of Power and Energy
OPPORTUNITIES

Tourism Sector

• Tourist arrivals in 2017 - 2.1 million

- Visitors in Million

<table>
<thead>
<tr>
<th>Year</th>
<th>Visitors in Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.05</td>
</tr>
<tr>
<td>2017</td>
<td>2.11</td>
</tr>
</tbody>
</table>

Most visitors arriving to Sri Lanka on a short term basis in 2017 were from the following countries:

- 36% India
- 25% China
- 18% United Kingdom
- 12% Germany
- 9% France

Source: Board of Investment Sri Lanka & Sri Lanka Tourism Development Authority
OPPORTUNITIES

Infrastructure Sector

- Northern expressway
- Mixed Development complexes and other commercial facilities in Colombo and other cities (Megapolis)
- Housing – Apartments
- Export processing zones with state-of-the-art technology
- West Management Systems and plants
- Warehousing and logistic centers etc.

Source: Board of Investment Sri Lanka & Ministry of Megapolis
INVESTMENT OPPORTUNITIES

IT and BPM Sector

More than 300 IT and BPO companies

11th place of Global Services Location Index 2017

Earned USD 926 Million export revenue in 2017 (Telecommunications, Computer and Information Services)

- Start up new business or build joint ventures and enter to the Asian region
- Opportunities for telecommunication equipment
- Outsource your business process
- Develop value additions

Source: Board of Investment Sri Lanka, Export Development Board & SLASSCOM
INVESTMENT OPPORTUNITIES

Apparel and Textile Sector

44.3% share of total export revenue

More than 300 privately owned companies

More than 300,000 direct employees

- The apparel industry is a key sector that needs continuous upgrading and acquisition of new technology and equipment
- There are prospects to supply textile materials and machineries
- German exporters could evaluate Sri Lanka as a warehousing hub for its products
- Attractive incentives are available for German manufacturers to establish textile-manufacturing facilities.

Source: Board of Investment Sri Lanka, Export Development Board & Central Bank of Sri Lanka
INVESTMENT PROTECTION

- Sri Lanka has signed Bilateral Investment Protection Agreements (IPA) ---- 28 countries (Ex: Australia, Germany, Denmark, France, Sweden)
- Sri Lanka also has Bilateral Double Tax Avoidance Agreements (DTAA) ------ 42 countries (Ex:)
- A founder member of the Multilateral Investment Guarantee Agency (MIGA)
DOING BUSINESS IN SRI LANKA
TYPES OF COMPANIES

Sri Lanka Companies Act No 7 of 2007

Private Companies
• A private company must consist of at least one and not more than fifty members.
• It must have at least one director.
• A private company cannot invite public subscription for its shares.

Public Companies
• At least seven members are required (there is no upper limit).
• It must have at least two directors.
• Public companies may invite public subscriptions for their shares or debentures and other securities, and can also be listed on the stock exchange.
• They cannot commence business without a business commencement certificate.

Offshore Companies
• A company registered within or outside Sri Lanka may register itself in Sri Lanka as an offshore company to carry on any business outside the shores of Sri Lanka.
• If a company registered outside Sri Lanka registers itself as an offshore company, it is deemed to have been incorporated in Sri Lanka.
• An offshore company cannot conduct any business in Sri Lanka

Source: Department of Registrar of Companies & Companies Act No 7 of 2017
TYPE OF COMPANIES

Subsidiaries
• To establish a business in Sri Lanka foreign companies can incorporate as a local subsidiary company.
• A subsidiary in Sri Lanka must comply with all statutory requirements imposed on domestic companies.

Branches
• A company incorporated outside Sri Lanka may establish a place of business in Sri Lanka by registering a branch office with the Registrar of Companies.
• Applications for registration must be made within one month of establishing a place of business in Sri Lanka.
• Generally approval from the relevant line ministry would be required before the registration can be completed.
• The liability of a branch extends to its foreign assets.

Liaison / Representative Offices
• A company incorporated outside Sri Lanka may maintain its presence in Sri Lanka through a representative office, and is of similar status to that of a branch office.
• Company is prohibited from engaging in any trading or investment activity or accruing any turnover in Sri Lanka.
• No tax incident arises since it is not permitted to trade.

Joint Venture Company
• A joint venture can be with other Sri Lankan companies or foreign entities.
• A joint venture business may be incorporated or carried on as an unincorporated business similar to that of a partnership.
• Joint ventures have become popular in recent years; particularly in export oriented projects.

Source: Department of Registrar of Companies & Companies Act No 7 of 2017
www.srilanka.ahk.de
TAX SYSTEM IN SRI LANKA

Personal Income Tax
• Tax Free Allowance
  LKR 500,000 for all sources of income
  Additional tax relief of LKR 700,000 for employees only
• Rates of Tax – 2018/2019

<table>
<thead>
<tr>
<th>Taxable Income (LKR)</th>
<th>Rate</th>
<th>Cumulative Tax (LKR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 600,000</td>
<td>4</td>
<td>24,000</td>
</tr>
<tr>
<td>Next 600,000</td>
<td>8</td>
<td>72,000</td>
</tr>
<tr>
<td>Next 600,000</td>
<td>12</td>
<td>144,000</td>
</tr>
<tr>
<td>Next 600,000</td>
<td>16</td>
<td>240,000</td>
</tr>
<tr>
<td>Next 600,000</td>
<td>20</td>
<td>360,000</td>
</tr>
<tr>
<td>Balance</td>
<td>24</td>
<td></td>
</tr>
</tbody>
</table>

Withholding Tax
• Withholding tax on interest

<table>
<thead>
<tr>
<th>Assessable income -</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid to a resident person (other than senior citizen)</td>
<td>15</td>
</tr>
<tr>
<td>Interest to non-resident person</td>
<td>14</td>
</tr>
<tr>
<td>Rent paid to Resident person</td>
<td>10</td>
</tr>
<tr>
<td>All other cases including non-resident person</td>
<td>14</td>
</tr>
</tbody>
</table>

Corporate Income Tax

<table>
<thead>
<tr>
<th>On profit and Income</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and Medium enterprise</td>
<td>14</td>
</tr>
<tr>
<td>Company predominantly conducting a business of exporting goods &amp; services</td>
<td>14</td>
</tr>
<tr>
<td>Company predominantly conducting an agricultural business</td>
<td>14</td>
</tr>
<tr>
<td>Company predominantly providing educational services</td>
<td>14</td>
</tr>
<tr>
<td>Company predominantly engaged in an undertaking for the promotion of tourism</td>
<td>14</td>
</tr>
<tr>
<td>Company predominantly providing information technology</td>
<td>14</td>
</tr>
<tr>
<td>Persons engaged in betting &amp; gaming, liquor or tobacco business</td>
<td>40</td>
</tr>
<tr>
<td>Companies other than taxable at 40% and 14%</td>
<td>28</td>
</tr>
<tr>
<td>On dividends distributed</td>
<td>14</td>
</tr>
<tr>
<td>Remittance of profits</td>
<td>14</td>
</tr>
</tbody>
</table>

Value Added Tax (VAT)
• Standard rate – 15%
• Exports & specified international services - zero rated
  Registration Threshold for VAT is Rs 3Mn per Quarter or Rs 12Mn per annum

Source: Department of Inland Revenue Sri Lanka
TAX SYSTEM IN SRI LANKA

Nation Building Tax (NBT)

• 2% is payable by importers, manufacturers, service providers on their turnover and wholesalers & retailer on 50% of their turnover.
• Registration Threshold
  Liable turnover Rs 3 Mn per quarter or Rs 12 Mn per annum

Share Transaction Levy (STL)

• Payable by every buyer and seller on the turnover of every share trading transaction conducted through a stock exchange at 0.3% on the turnover

Telecommunication Levy - 25%
A relationship of principal and agent as known in English law can be determined by private contract.

According to the previous Exchange Control Act, there was a provision for Agency which represents a foreign company, that has to be approved by the Controller of Exchange in Sri Lanka. But, according to the Foreign Exchange Act No. 12 of 2017, there is no any provision for Agency.

**Duties of an agent to his principal**
- The Agent must follow the Principal's instructions
- The agent must act in person and not delegate his duties
- Agent’s duty to exercise reasonable diligence, care and skill
- Agent’s duty to maintain accounts
- Agents duty to act in the Principal’s interest

**Duties of the Principal towards the Agent**
- The right to remuneration
- The right to an indemnity
- The right to exercise a lien

Source: Department of Foreign Exchange, Law of Agency in Sri Lanka

www.srilanka.ahk.de
Delegation of German Industry and Commerce in Sri Lanka

AHK Sri Lanka was officially inaugurated on 27th March 2018, with the purpose of enhancing the bilateral economic relationship between Germany and Sri Lanka,

- Market Access Support (Partner searching, Market information, Market studies)
- Trade Fair Support (Consultancy and Information)
- Legal Information
- Debt Collection and Mediation
- Vocational and Continuous Training
- Public Relationship Support
THANK YOU