

Sri Lanka Crisis 2022: The Biggest Economic Debacle & Political Turmoil Since 1948

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1. Abstract

Sri Lanka, an island nation of 22 million people is facing a huge economic crisis and political turmoil with protestors taking on the streets across the nation. It's the first-ever economic crisis that the country has witnessed after gaining independence in 1948. The crisis has resulted in a sordid socio-economic plight wherein government's coffers are empty and there is no money with the people to buy essential goods like food and medicine. The pandemic, rising energy prices, and populist tax cuts have all had a significant impact on Sri Lanka's economy. A persistent lack of foreign cash and skyrocketing inflation has resulted in serious shortages of medications, fuel, and other necessities. The Ministry of Finance is finding it difficult to raise \$5 million¹ to import gas. This depletion of foreign reserves has made the citizens spend hours together in long queues outside the fuel stations. The country has run out of money to pay for fuel, power and energy. The economy of the country has come to a standstill with the total debt amounting to be \$51 billion.

Key Words: Depletion of Foreign Exchange Reserves, Bankruptcy, Foreign Loans, Foreign Debt - \$51 billion, Currency Swap Facilities, Credit Lines, Inflation, Political Crisis

2. Introduction

The economy of Sri Lanka upon independence in 1948 was much more prosperous compared to most of its Asian neighbors. Political conflicts in the country have had a disastrous impact on the economic development and long-term stability of the country. As per the history of Sri Lanka, it can be fairly substantiated that the root cause of continuing conflict and stunted development of the country has been because of the "*Twin Political Conflict*". The Tamil separatist war in the north and the Sinhala youth uprising in the south.² From the 1950's to the late 1970's, Sri Lanka

¹ Quint, T. (2022). 'Country Out of Petrol, Power Outages May Increase': Sri Lanka PM Wickremesinghe. [online] TheQuint. Available at: <https://www.thequint.com/news/world/sri-lanka-prime-minister-ranil-wickremesinghe-economy-precarious-petrol-power-outages-inflation-imports> [Accessed 23 May 2022].

² Abeyrante, S. (YEAR). 'Economic Roots of Political Conflict: The Case of Sri Lanka', Department of Economics, University of Colombo, Available at:

was an inward-looking closed economy with very low levels of economic growth, which led the country to be in a high level of fiscal deficit. Later in the timeline, the 21.8 million strong population faced a brutal civil war from 1983 to 2009 wherein tens of thousands of people were killed. After the long civil war, in the last decade, the country could hardly manage the reign of stability and the development and is presently facing street violence and political chaos yet again with the economic downfall and no foreign reserves to import essential goods.

Sri Lanka is a lower-middle-income country with a Gross Domestic Product (GDP) per capita of USD 3,852 (2019) and a total population of 21.8 million.³ The political turmoil in Sri Lanka since **April 3, 2022** has been an ongoing political crisis in the country due to the power struggle between President Gotabaya Rajapaksa and the Parliament of Sri Lanka. The slowdown of the economy, ballooning debt, shrinking of foreign reserves, and not enough money with the citizens to pay for the basic necessities are some of the factors which have destroyed and demolished the country's overall morale and standing.

The economic crisis has been the result of mismanagement of the economy and politics in the country for many years which has been led by the Rajapaksa family. According to Prime Minister, Ranil Wickremesinghe, the country would face difficult circumstances in their lives due to the severe economic blow. To bring the country to a stable position, \$75 million is needed to stabilize the economy and make the ends meet for the citizens.⁴ According to the former Governor of the Central Bank, Dr. Indrajit Coomaraswamy, the origins of the crisis can be traced back seven decades before. In his view, "the primary cause for Sri Lanka's regression from being the second most advanced country in Asia at the time of independence, to where it is now is due to macro-economic instability and also the primary cause for that has been the government's fiscal operations, said being the government's budget towards the country's development has been the main source of instability."⁵

This crisis made the President, Gotabaya Rajapaksa to declare a state of emergency on May 6, 2022 in a bid to restore basic law and order following escalating anti-government protests and mass strikes.⁶ Sri Lanka's debt burden is huge. Its debt service obligation for the period July 2021 to 2026 is about US\$ 29 billion.⁷ The economy of the country has come to a standstill with the total debt amounting to be \$51 billion. The debt payment this year which needs to be paid by the country stands at \$4 billion, including \$1 billion international sovereign bond maturing in July. A

³ <https://www.worldbank.org/en/country/srilanka/overview#1>

⁴ news.lk. (2022). *Largest installment of debt servicing in SL history due in Jan – PM*. [online] Available at: <https://news.lk/news/political-current-affairs/item/23690-largest-installment-of-debt-servicing-in-sl-history-due-in-jan-pm> [Accessed 23 May 2022].

⁵ srilankatwo (2022). *What's next for the Sri Lankan Economy?* [online] SRI LANKA. Available at: <https://srilankatwo.wordpress.com/2022/05/18/whats-next-for-the-sri-lankan-economy/> [Accessed 30 May 2022].

⁶ country.eiu.com. (n.d.). *Economist Intelligence Unit*. [online] Available at: <https://country.eiu.com/Sri%20Lanka> [Accessed 27 May 2022].

⁷ Fitchratings.com. (2022). *Rating Reports Sri Lanka*. [online] Available at: <https://www.fitchratings.com/research/sovereigns/sri-lanka-02-07-2021> [Accessed 30 May 2022].

coupon payment of \$78 million is due across two of its bonds maturing in 2022 and 2028 with a grace period of 30 days.⁸



Tension in Sri Lanka, angry citizens pursuing and killing politicians over unemployment and prevailing hardships

Long queues at fuel stations have resulted in massive public anger. Further, households are experiencing nearly 12-hour-long power cuts and there is a massive shortage of essentials, due to the falling value of the Sri Lankan rupee.¹⁰ This has resulted in protests at Galle and youth are joining the protests. The demand of the protesters is that the President Gotabaya Rajapaksa should resign for his bad handling of the economic crisis.

Economists describe Sri Lanka as a perfect case study of a twin deficit economy: national expenditure exceeding national income combined with inadequate domestic production of tradable goods and services.¹¹ According to the Central Bank's annual report for 2020¹², the country has faced a contraction of the economy by 3.6%, it has been the deepest recession since independence. The crisis has also been aggravated by the President's short-sighted decision to 'gift-tax cuts' in late 2019, a move which has

⁸ Jayasinghe, U. and Rosario, J.D. (2022). Sri Lanka unilaterally suspends external debt payments, says it needs money for essentials. *Reuters*. [online] 12 Apr. Available at: <https://www.reuters.com/world/asia-pacific/sri-lanka-temporarily-suspend-foreign-debt-payments-c-bank-governor-2022-04-12/>.

⁹ Clifford, J. (2022). *Economic Crisis: Tension In Sri Lanka, Angry Citizens Pursuing And Killing Politicians Over Unemployment, Hardship - Wee Talk Naija News*. [online] Weetalknaija Daily Post. Available at: <https://weetalknaija.com.ng/news/economic-crisis-tension-in-sri-lanka-angry-citizens-pursuing-and-killing-politicians-over-unemployment-hardship.html> [Accessed 1 Jun. 2022].

¹⁰ Press Trust of India (2022b). Sri Lanka starts fuel rationing amidst severe economic crisis. *The Economic Times*. [online] 15 Apr. Available at: <https://economictimes.indiatimes.com/news/international/world-news/sri-lanka-starts-fuel-rationing-amidst-severe-economic-crisis/articleshow/90863859.cms> [Accessed 31 May 2022].

¹¹ No easy way out: On the Rajapaksas. (2022). *The Hindu*. [online] 17 Apr. Available at: <https://www.thehindu.com/opinion/editorial/no-easy-way-out/article65328921.ece> [Accessed 1 Jun. 2022].

¹² www.cbsl.gov.lk. (2020). *Annual Report 2020 | Central Bank of Sri Lanka*. [online] Available at: <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2020>.

affected the proportion of government revenue to GDP from 12.6% in 2019 to 9.1% in 2020.¹³

3. Root causes of political crises in Sri Lanka since the 1970's

Surprisingly, Sri Lanka, a nation that was regarded at the time of its independence from Britain in 1948 as the first potential case of development success in the third world, unexpectedly deteriorated into a state of political conflict and subsequent struggles after it gained its independence. The political war that has been ongoing in Sri Lanka since the 1970s may be broken down into two primary categories: one of these is the Tamil separatist movement, which is well recognized for the guerrilla warfare strategy adopted by the militants of the group, Liberation Tigers of Tamil Eelam (LTTE) against the Sinhala community, which is the majority community in the country; the other one, is the militant movement of the Sinhala community, which has twice erupted into violent battles with the intention of overthrowing the current government and establishing a new one. Sri Lanka was not successful in reducing the likelihood of political strife occurring on the island. The escalation of the civil war itself imposed massive costs on the economy and retarded the potential economic development of Sri Lanka (Arunatilake et. Al. 2001, Richardson and Samarasinghe 1991).

Post-independence, the country followed a protectionist policy which led to the growing balance of payment crisis rather than following import substitution industrialization. Protective measures influenced the allocation of industry resources in favor of capital-intensive and inefficient manufacturing lines. The government at the time contributed to a high domestic resource cost of manufacturing and had little role in employment generation. In addition, diverse economic regulations and nationalization policies successfully impeded the rise of the private sector.

The import bill has always exceeded the income earned by the export of the items and the foreign currency utilized to pay the import cost. The restricted trade system resulted in a virtual contraction of the private sector due to the expanding role of the state, not only as the market's regulator but also as the primary "entrepreneur" and "provider" in the economy. The diminutive local market and the rising foreign exchange crisis impeded the manufacturing sector's progress.

The public sector grew to encompass manufacturing, agriculture, commerce, finance, and other vital sectors, which were handled by inefficient state corporations whose losses were covered by government transfers. The organizations and businesses of the public sector, where employment prospects were mostly accessible, became "job agencies" to supply employment based on political favoritism. In consequence, the rule was marked by slow economic development, which averaged 2.9% during the years 1971-77. It was accompanied by few structural reforms, a rise in unemployment, a worsening balance of payments problem, a severe shortage and rationing of consumer goods, and therefore a rise in political discontent. Despite failing to translate its initial favorable position into following economic momentum, Sri Lanka brought its economy to a near standstill by the middle of the 1970s.

¹³ Ibid - 12

The United National Party, which was brought to power in 1977, immediately implemented dramatic policy reforms in the direction of a liberalized and export-oriented trade system and attempted to end the policy and political swings by copying the East Asian model. The primary features of the policy package, including the liberalization of import trade from high tariffs and quota limitations, the relaxing of control over foreign exchange transactions, the abolition of limits on private sector activities, incentives for foreign direct investments, and incentives for export promotion, were designed to create an economic climate suitable to fast economic expansion.

When compared to the time period before 1977, the pace of economic growth was significantly higher and was sustained at a rate of around 5 percent on average, along with a drop in unemployment. However, this was accomplished in the 1980s when the country was in the midst of a deepening civil war on two fronts, one in the South and one in the North, both of which stifled the country's capacity for economic progress.

4. Domestic factors that led Sri Lanka's economic crisis go soaring

Easter Sunday attack in 2019 and the outbreak of the global pandemic severely affected the foreign currency earning sectors of Sri Lanka i.e., tourism, remittances and export. The tourism industry in Sri Lanka contributes 12.6% of the country's total GDP, as of 2019. The hospitality and tourist industry plays a significant role in the administration of the economy. After many churches and high-end hotels in the city of Colombo were attacked, the resulting death toll was close to 270. As a direct consequence of this, the amount of foreign cash that is brought into the country by tourists from other countries has reduced remarkably. Up until the middle of the 1990s, revenues accounted for around 20% of GDP. It has now dropped down to a little over 8%. Even before the pandemic and the tax cuts, revenues had dropped to 13% of GDP, while expenditures were at 20%.

As to the World Bank's latest reports, 5 lakh people have fallen below the poverty line in Sri Lanka since the pandemic struck, which is described as a "huge setback equivalent to five years" worth of progress for the nation.¹⁴ Since August 2020, there has been a decline in foreign reserves, but the country faced a major decline in November 2021 (Fig. 1).

¹⁴ Times of India Blog. (2022). *5 factors that led to the Soaring of Sri Lanka's economic crisis*. [online] Available at: <https://vsp1toireaderblogs.indiatimes.com/readersblog/prasanna-talks/5-factors-that-led-to-the-soaring-of-sri-lankas-economic-crisis-42347/> [Accessed 19 May 2022].



Figure 1 – Gross Official Reserves

Source – Central Bank of Sri Lanka

Since the government was unable to generate sufficient money as a result of the unprecedentedly unfavorable market circumstances, the Central Bank of Sri Lanka has been continuing to provide liquidity from the country's foreign reserves ever since April 8, 2020. The current global financial crisis has been rendered significantly worse in recent years as a result of a reduction in the amount of foreign reserves that are being brought in at a time when the amount of raw materials that are being exported is significantly lower. Because there is a shortage of foreign currency in the nation, it is becoming increasingly difficult for importers to get a Letter of Credit (LOC) from the country's banks. As a direct consequence of this, several of the containers have been held up in the port of Colombo for a number of days because payments have not been completed.

Due to the lack of foreign reserves and also lack of essential items in the country, the investors are reluctant to invest as the country has been put in the **'high-risk' category** of defaulting the debt servicing.

Because of how it has dealt with the economic crisis, the pandemic, general governance, and foreign affairs, the government is facing the wrath of the common people, opposition parties, and even the disappointment of some of the coalition partners on the domestic front. This is because of the government's poor performance in these areas. The combination of all of these elements would make it extremely difficult for Sri Lanka to emerge unscathed from the current situation. Even while the government has, up to this point, stated that it would not ask for help from the IMF, there is a possibility that it will be forced to do so at a later date.

This magnificent and prosperous country descended into chaos for reasons that were not adequately investigated. It wasn't long before everyone understood what had happened: a once-proud and forward-thinking nation had become the personal fiefdom of a single-family, **the Rajapaksas**.

In December 2019, the newly elected President made a bad economic decision by cutting the VAT rates to half. The rates went down from 15% to 8%, which caused the country's income to go down. Faced with a tough choice about how to stay in business, Sri Lanka's Central Bank printed more money than it should have. They went up by 1.2 lakh crore (SLR), which is about 26,000 crore rupees in Indian currency. This was a major cause of inflation. In May 2021, another political decision made by the President, which was to turn Sri Lanka into a 100% organic agriculture country, caused economic chaos. The government made it illegal to bring chemicals and fertilizers into the country. This caused crops to fail, food prices to rise, and the agrarian economy to get worse. Over 70 percent of foreign exchange reserves have been depleted in only two years. As of February, the government had only \$2.31 billion in reserves, while having to repay \$7 billion in debt in 2022. The decision of the Rajapaksa administration to prohibit all chemical fertilizers in 2021, which was subsequently rescinded, affected the nation's agriculture industry and led to a drop in the critical rice output.

Market borrowings account for 47 percent of the debt in Colombo, followed by the debts from Asian Development Bank of 13 percent, China and Japan of 10 percent each, the World Bank of 9 percent, and India of 2 percent of the total debt (10 percent account for others; non-residential treasury bills/bond holdings and state-owned enterprises are excluded from this calculation). The debt profile of Sri Lanka dates back to the year 2007. According to the opinions of the analysts, the government either has to reorganise its debt or look for assistance from the International Monetary Fund.

The foreign debt of the country being \$51 billion, has made the debt stock 'unsustainable', and according to the Ministry of Finance, the repayment of the debt on time is 'no longer tenable'.¹⁵ The investors are reluctant to invest in the country as the domestic production is extremely low, political atmosphere is chaotic, administration is just not coping up with the situation and the business environment is almost non-existing and non-conducive.

5. Global factors leading to the economic debacle

The current situation with bleak foreign-exchange reserves is seen by the government of Sri Lanka to have been caused by the strategy of previous governments, which consisted of importing more than the income collected over the course of many years. It is also claimed that borrowing money from organizations that operate on a multilateral scale contributed to the predicament that the country is currently facing. The pandemic caused by COVID-19 has also contributed to the escalation of the problem.

The development of the conflict between Russia and Ukraine has led to severe ramifications for Sri Lanka, as both countries are significant markets for Sri Lankan tourism. Russians accounted for 15.8 percent of all visitors who visited Sri Lanka this year till February, while Ukrainians accounted for 8.7 percent. The lack of

¹⁵ Srinivasan, M. (2022). Explained | How will Sri Lanka overcome its debt crisis? *The Hindu*. [online] 16 Apr. Available at: <https://www.thehindu.com/news/international/explained-how-will-sri-lanka-overcome-its-economic-crisis/article65326298.ece>.

tourists from these nations as a result of the war has an adverse impact on the tourism industry. Furthermore, the Russia-Ukraine conflict has already led global oil prices to rise, complicating Sri Lanka's ability to import gasoline for everyday needs. Because both the countries are significant markets for Sri Lankan tea, the worsening crisis between them had led to a major influence on exports.

6. China's influence on Sri Lanka's domestic affairs: Sri Lanka seeks help from China to cover debts

China has not made any official statement till now regarding the repayment of the Chinese loan. As per the business negotiations between the two countries, since Sri Lanka could not re-pay the funding capital debt, China was handed over the lease of 99 years. The Dragon is handling the Hambantota International Port, that is so strategically located and the second-largest port in the nation that forms part of the designs of Chinese Belt and Road Initiative (BRI). This is a sheer example of China's debt trap diplomacy and Sri Lanka has become a victim.

Sri Lanka is struggling to pay back over \$8 billion in Chinese loans. With the assistance of Chinese loans, though the country has built infrastructures like sea ports, airports and road networks, but these infrastructures are not making enough money which is one of the causes of the economic crisis. The government of Sri Lanka is now asking the Chinese government to restructure those loans. According to some sources, the government has issued a statement that China is going to help Sri Lanka.¹⁶ Beijing through the China International Development Cooperation Agency (CIDCA) has offered \$31 million in 'humanitarian aid' as Colombo is facing a crunch in foreign reserves, along with 5,00 tonnes of rice, pharmaceuticals, and production materials and other essentials.¹⁷

7. Global reactions to the Sri Lankan crisis

India, which is Sri Lanka's closest neighbor, also has to deal with the spillover effects. The Indian southern state of Tamil Nadu is witnessing an inflow of refugees. The predicted range is between 2000 and 4000. India has also provided a \$1 billion credit line to assist stabilize gasoline and food costs. Also, a credit swap agreement for \$400 million has been approved. Under this system, basics such as medicines and food have been delivered thus far.

China has exerted pressure on Sri Lanka to refinance its loans. If the situation merits it, India may give more humanitarian aid. The International Monetary Fund (IMF) has proposed increasing income tax and value-added tax (VAT) rates in order to stabilize the economy. According to IMF spokesperson Gerry Rice, in the next days the IMF will begin discussions with Sri Lankan authorities over a potential loan package. The

¹⁶ Press, A. (2022). *Sri Lanka, China discuss loan from Beijing to cover debts...* [online] The New Indian Express. Available at: <https://www.newindianexpress.com/world/2022/apr/26/sri-lanka-china-discussloan-from-beijing-to-cover-debts-2446812.html>.

¹⁷ Srinivasan, M. (2022a). As Sri Lanka pins hopes on IMF, China pledges more aid. *The Hindu*. [online] 21 Apr. Available at: <https://www.thehindu.com/news/international/as-sri-lanka-pins-hopes-on-imf-china-pledges-more-aid/article65342578.ece> [Accessed 1 Jun. 2022].

geo-political position of Sri Lanka may be observed in India and China as a fight for dominance in the Indian Ocean. The nation is located on a crucial sea route between the east and west. Consequently, according to China, the country is crucial for China's "Belt and Road" plan. But, with the current debt situation, Colombo has rejected awarding Beijing a 99-year lease on 62 hectares, to outright the control of the property in the port city of Colombo.

8. The country turns to its neighbors and bilateral partners

The government of Sri Lanka is reaching out to bilateral partners for help in the form of loans and currency exchange facilities to combat the present economic crisis. Bangladesh has extended a currency swap facility worth \$200 million. China extended a swap facility worth \$1.5 billion. China Development Bank has likewise provided Sri Lanka with \$700 million.

India has so far committed financial assistance to the tune of US\$ 2.4 billion which includes, US\$ 400 million under the SAARC currency swap arrangement with the RBI, deferral of A.C.U. settlement of US\$ 515.2 million by two months, US\$ 500 million for importing fuel from India and US\$ 1 billion for importing food, essential items, and medicine. In addition to this, Indian Oil Corporation has supplied 40,000 Metric Tonnes of fuel on 60 days of credit. As part of the financial assistance package, India has also agreed to positively contribute to enhance Sri Lanka's energy security by signing an MoU to jointly develop the Trincomalee oil tank farms; and by providing all kinds of assistance to tap Indian tourists for strengthening Sri Lanka's tourism sector as well as enhancing Indian investments in Sri Lanka. India has also helped Sri Lanka defer repayment of loans totalling \$1 billion under the Asian Clearing Union.¹⁸ This assistance from India testifies to the Government of India's vision and the twin principle of 'Neighborhood First and S.A.G.A.R (Security and Growth for All in the Region).

Pakistan and Qatar have also agreed to contribute. Pakistan has agreed to grant credit lines worth US\$ 200 million for imports of cement, basmati rice, and Pakistan-made pharmaceuticals. The CBSL has begun negotiations with the Central Bank of Qatar to seek a swap of over \$1 billion.

The bilateral assistance in the form of a currency exchange facility acquired from Bangladesh, China, and India has enabled Sri Lanka to increase its Gross Official Reserves and pay its January 2022 debt service obligations. In addition, Indian cooperation has assisted in addressing the gasoline shortages. Sri Lanka mainly relies on India's one billion dollars to pay for the import of food and medicines so that the people of Sri Lanka do not have to face food crisis.

¹⁸ Srinivasan, M. (2022c). *PressReader.com - Digital Newspaper & Magazine Subscriptions*. [online] www.pressreader.com. Available at: <https://www.pressreader.com/india/the-hindu/20220504/282175064694045> [Accessed 1 Jun. 2022].

9. Will the fundings from multilateral organizations help Sri Lanka to come back on its feet?

The Sri Lankan government has appealed to multiple countries and multilateral organizations to bridge the financial crisis that it is facing currently. The World Bank in a statement has reported that it will assist the country with \$600 million, and it will continue to assist till the time the country doesn't come out of the shackles of economic crisis.

From 18th to 22nd of April this year, the IMF managing director Kristalina Georgieva and the World Bank delegates with the Sri Lankan Finance Minister Ali Sabry and Central Bank of Sri Lanka Governor Nandalal Weerasinghe held a spring meeting in Washington. During this meeting, the key focus was on the economic challenges which the country is facing. The conclusion of the meeting was that Sri Lanka needs to implement a credible and coherent strategy to restore macro-economic stability with stronger social safety nets to mitigate the adverse impact of the current economic crisis. IMF during the meeting stated that – *“Going forward, the IMF team will support Sri Lanka’s efforts to overcome the current economic crisis by working closely with the authorities on their economic program, and by engaging with all other stakeholders in support of a timely resolution of the crisis”*, but there was no mention of the monetary support which the country will get from IMF. As also, the Sri Lankan government is also of the view that in seeking assistance from IMF there are always strings attached with it, in which the country does not want to put its feet at the moment.



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Recent visit of the Sri Lankan Delegation to Washington DC for the IMF/World Bank Spring Meetings

With all said and done earlier, Sri Lanka now has also requested a rescue from the IMF and re-negotiated its debt arrangements with its creditors as part of a

¹⁹ Neera (2022). *Recent Visit of the Sri Lankan Delegation to Washington DC to attend IMF/World Bank Spring Meetings*LankaTalks. [online] LankaTalks. Available at: <https://lankatalks.com/recent-visit-of-the-sri-lankan-delegation-to-washington-dc-to-attend-imf-world-bank-spring-meetings/> [Accessed 1 Jun. 2022].

comprehensive debt-reduction package. According to Finance Minister Ali Sabry, Sri Lanka's usable foreign reserves are down to \$50 million, as the cash strapped island awaits assistance from the IMF, which might take up to six months to come through.²⁰ The country is seeking a \$4 billion bailout package this year from IMF, but according to the government, on the other side, it is not so keen to approach IMF for a bailout, as its assistance comes with strings attached, which would impose an additional burden on the people who are already facing challenges due to the pandemic and the ongoing crisis. The existing government is likewise of the opinion that the intermittent IMF programmes undertaken in Sri Lanka exacerbated the country's economic difficulties. Though, the government is convinced that it can handle the issue without a bailout from the IMF, remarks from governing party officials indicate that the government may seek IMF technical support.

10. The Way Ahead: how will Sri Lanka be able to come out of the current economic crisis?

How can Sri Lanka come out of this economic crisis and how did the country land up in such a bad situation? What are the measures which are being taken by the government to save the country from this hard-headed economic crisis? Will assistance from the IMF be enough to restructure loans and rescue the economy?

Sri Lanka currently is facing “two-major-setbacks’ which it needs to address along with the negotiations to achieve an IMF programme, “One is the fiscal framework, one that will get the country out from the debt sustainability and two, electricity prices need to be adjusted significantly”. Along with these two main concerns there are international sovereign bonds, which account for the majority of the foreign loans that the country holds, which is around 40% of outstanding foreign loans.

The “*new alternative Budget*”, which includes privatization of the country's loss-making national carrier Sri Lankan airlines and printing more money to pay state sector employees may be redemption by which Sri Lanka can come out of the debt crisis. But it's easy said than done. For the first time in 70 years, the country has become a defaulter as it is struggling to pay \$78 million. This has damaged the country's reputation and has made the country difficult to borrow the money it needs to play in the international market. The budget deficit for the year is Sri Lankan Rupees 2.4 trillion or 13% of its GDP.

One of the government's top policy aims is to cut import expenditures. Several more 'domestic measures' have been implemented to prevent capital outflow and promote capital inflow in order to bolster foreign reserves. To address the issue of paying imports and debt, the government has engaged bilateral partners for loan, credit, and currency exchange facility assistance. While dealing with the crisis scenario by not defaulting on debt-servicing, special attention is also being paid to increasing investor trust.

²⁰ Fern, F.C.J. and o (2022). *Sri Lanka's usable reserves now negligible, says Finance Minister*. [online] Ceylon Independent. Available at: <https://www.independent.lk/sri-lankas-usable-reserves-now-negligible-says-finance-minister/> [Accessed 1 Jun. 2022].

Even if the existing administration is optimistic, Sri Lanka cannot rely solely on bilateral aid to overcome this situation. While the fact that the aid is allowing Sri Lanka to handle its debt service and import costs despite having inadequate foreign reserves, it is important to note that the support comes in the form of loans. It is anticipated that the current economic climate will last for at least the next two or three years.

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