



ECONOMIC CRISIS IN SRI LANKA'S: BATTLING FOR SURVIVAL AND SUSTAINABLE ECONOMIC GROWTH

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Abstract

The purpose of my research is, to describe how Sri Lanka's Economic crisis will affect and bring challenges for Indian economy. Why Sri Lanka's economic crisis is occurred. Described what impact being created due to economic crisis in Sri-lanka and also recommend some measures in order to come out from this crisis.

Sri Lanka was one of the South Asian nations which have better living conditions and economic stability compared to other South Asian nations. But now Sri Lanka is facing the worst ever economic crisis in the year 2022. Sri Lanka is experiencing a severe economic crisis as a result of the country's depletion of foreign reserves, which has resulted in shortages of food, fuel, medication, cement, and other necessary products with electricity blackouts. As a consequence of Sri Lanka's economic crisis is a fast putting citizen in hardship. The Sri Lankan government is optimistic that the crisis would be addressed shortly. Even though the circumstances on the ground and analyses of the government's policy measures imply that Sri Lankans would not receive economic respite anytime soon, global geopolitical-economic trends, particularly in the aftermath of the Russia-Ukraine war. In Sri Lanka, public resistance to the government's handling of the matter is steadily growing. India, being the nearest neighbour has offered 1billion to help the island nation for buying necessary commodities. The role of China in the affairs of Sri Lanka will be a trouble for India in the future. India depends mainly on Colombo port for trade purposes at present, the economic crisis should be tackled carefully by India because it will affect the economy, India.

Keywords: economic, crisis, commodities, Inflation, decline

Introduction

Sri Lanka is one of the most beautiful Islands in the world, previously known as Ceylon. It is a Democratic Socialistic Republic of Sri Lanka, situated in the South Asia. The current population of Sri Lanka in 2022 is 2.15 crores. The Sri Lanka Rupees is the currency of Sri Lanka, issued by the Central Bank of Sri Lanka. The symbol of the Rupee is generally used currency code as LKR in Sri Lanka. The Island country, Sri Lanka exports largely textiles, garments, rubber, tea, and coconut products and imports consumer goods, especially crude oil, coal and other petroleum products.

Sri Lanka's economic crisis is unique in history. The crisis has been seems by high inflation and severe fuel, food and energy shortages. Economic growth has been ruined by high foreign debt, dwindling foreign currency reserves, and currency depreciation, besides that the effect of the COVID-19 pandemic, the crisis was the reason by not managing well government finances and at the same time tax reductions. India, China, and Bangladesh have all offered assistance to support Sri Lanka in the face of the crisis. Sri Lanka may seek financial aid from the International Monetary Fund (IMF) to properly address the economic crisis. The growth of Sri Lanka's economy slowed down to 1.8% in the fourth quarter of the FY2021-22, with annual growth of 3.7%. This is much lower than the projected growth of 5% by Sri Lanka's Central Bank.

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 strikes¹. Sri Lanka's debt burden is huge. Its debt service obligation for the period July 2021 to 2026 is about US\$ 29 billion². 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 coupon payment of \$78 million is due across two of its bonds maturing in 2022 and 2028 with a grace period of 30 days³.

Cause of Sri Lanka economic crisis:

Foreign debt: According to ADB's (Asian Development Bank) report published in 2019 on Sri Lanka's economic challenges, the country has suffered high deficits and increased public debt, which evolved into high inflation and a balance of payment crisis. Because the country's macroeconomic performance was consistently poor, the government was forced to borrow money to close fiscal deficit gaps. This pattern continued for years, as uncontrolled debts and rising interest rates exhausted foreign currency reserves.⁴

Huge Tax cuts: Aside from the twin-deficit economy in a country that has long lived beyond its means, the large tax cuts imposed by Rajapaksa's government months before the COVID-19 outbreak were a major trigger of the crisis. These tax cuts weakened Sri Lanka's economy even more. Furthermore, the agricultural industry's production of rice, a primary agricultural product, fell dramatically as a result of a sudden chemical fertiliser ban. The country is supposed to repay a \$4 billion debt in 2022, but it only has \$2.31 billion. International Sovereign Bonds account for the majority of its foreign debt, totalling US\$ 12.55 billion. In addition to debts, we see a number of issues for Sri Lanka, such as its inability to afford critical import goods such as food and fuel. Public outrage grew when Rajapaksa's government devalued the Sri Lankan rupee in the hopes of securing a loan from the IMF (International Monetary Fund).⁵

¹country.eiu.com. (n.d.). Economist Intelligence Unit. Available at:<https://country.eiu.com/Sri%20Lanka>.

²Fitchratings.com. (2022). Rating Reports Sri Lanka. Available at: <https://www.fitchratings.com/research/sovereigns/sri-lanka-02-07-2021>.

³Jayasinghe, 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/>.

⁴Weerakoon, D., Kumar, U., Dime, R., & South, A. (2019). Sri Lanka's Macroeconomic Challenges A Tale of Two Deficits.<https://www.adb.org/sites/default/files/publication/493451/swp-063-sri-lankamacroeconomic-challenges-two-deficits.pdf>

⁵ Reuters. (2022, April 19). Explained: What led to the Sri Lanka economic crisis, and who is helping? The Indian Express; The Indian Express. <https://indianexpress.com/article/explained/sri-lanka-economic-crisis-explained-7849208/>

The COVID-19 Pandemic: The island nation is heavily reliant on tourism and the presence of foreign workers, both of which suffered during the pandemic outbreak in 2020. The majority of visitors to Sri Lanka come from India, Russia, and the United Kingdom, all of which have stricter restrictions on international travel⁶. The impact of the COVID-19 global pandemic on the tourism industry resulted in the complete shutdown of tourism operations not only in Sri Lanka, but also globally. The Sri Lankan government and industry professionals are taking various measures to use some to the industry and ensure the long-term viability of tourism businesses. Because the tourism industry is sensitive to external factors, any crisis will have an immediate impact. From time to time, the industry has faced crises such as global terrorism, natural disasters, wars, diseases, riots, and the global economic crisis. Controlling the pandemic and regaining the tourism industry's position is dependent on how countries deal with the crisis and finding a smart way out of the corona crisis. Local tourism should be encouraged for attractions through good package prices, while international tourism should be developed and accessed through a strategy of promoting tours with the safest options.⁷

Diminishing Forex: Sri Lanka's FOREX reserves have declined by 70% in the last two years, falling from US\$ 08 billion in 2020 to around US\$ 2.31 billion. This has made it difficult to pay for essential imports such as food and fuel. A critical shortage of foreign currency has made it more difficult for traders to finance their imports.

The Russia-Ukraine war.: On-going Russia-Ukraine war is also one of the causes of inflation in various parts of the world. Sri Lanka's already troubled economy, which is heavily reliant on foreign goods, imports 2% of its goods from Russia and Ukraine while exporting 2.2 % of its goods to those countries, primarily Sri Lankan black tea. Both countries are major importers of wheat, asbestos, steel, copper, and potassium chloride for fertiliser. Because of the Ukrainian crisis, the inflationary response in fuel prices and demand has reduced demand for Sri Lankan exports in Western nations.⁸

Poor Economic Policy Decisions: When the current government took office in 2019, it promised to boost economic growth. The government cut the value-added tax in half and eliminated certain other taxes to encourage consumption and the economy. The tax cuts resulted in a loss of billions of rupees in tax revenue, putting additional strain on the government's already overburdened finances. The government aimed to be the world's first to fully embrace organic farming. As a result, chemical fertilisers will be prohibited beginning in April 2021. In contrast, chemical fertilisers were used by 90 % of Sri Lankan farms. Food production was drastically reduced as a result of the transfer, resulting in sky-high prices.

What impact is being created by the crisis?

Job loss has become a common occurrence in almost every home, resulting in unemployment and poverty. Furthermore, lower earnings have resulted in an increase in poverty rates. According to World Bank data, the poverty rate based on a daily income of US\$ 3.20 increased to 11.7 % in 2020, up from 9.2 % the previous year.

⁶ CNBCTV18.com. (2022, April 5). Explained: Five reasons behind Sri Lanka's ongoing economic crisis. Cnbctv18.com; CNBCTV18. <https://www.cnbctv18.com/economy/explained-five-reasons-behind-sri-lankas-ongoing-economic-crisis-13052252.htm>

⁷ Arachchi, R. S. S. W., & Gnanapala, W. K. A. C. Impact of COVID-19 Pandemic on the Tourism Industry in Sri Lanka: The Dilemmas of Industry Sustainability. In *COVID-19 and the Tourism Industry* (pp. 225-238). Routledge.

⁸ Wijesinghe, A. (2022, February 28). How the Russia-Ukraine Conflict affects Sri Lanka. Southern Voice. <http://southernvoice.org/how-the-russia-ukraine-conflict-affects-sri-lanka>.

Inflation is rising: Retail inflation was 15.1 % in February 2022, while food inflation was 25.7 %, the highest in a decade. As a result, there is a severe food shortage. A cup of tea now costs Rs. 100, up from Rs. 25 in October 2021.

Fuel Shortages: Long lines at gas stations have resulted from fuel shortages. Due to a severe lack of diesel, multiple thermal power plants have been forced to close, resulting in rolling power outages across the country. Most areas have long power outages, with only 4 hours of power per day. The electrical situation has been exacerbated by the low level of water in reservoirs. Hydroelectricity dominates Sri Lanka's electrical generation, accounting for 40% of total generation.

Concerns about health: Doctor's visits and medications have become more expensive. Self-medication has become popular among the majority of people. This, according to the WHO, can result in increased morbidity.

People's dissatisfaction: Thousands of people gathered earlier this month on Colombo's main Galle Road to protest shortages and high prices in Sri Lanka. Some protesters are calling for the current President to resign.

Forced Migration: The deteriorating situation would compel native Sri Lankans to migrate to other countries such as India and the Maldives in search of better opportunities and a more stable environment.

Some Challenges and Crisis in India:

Since China has taken up more ground in Sri Lanka's foreign policy. The crisis proved to be an opportunity for Indo-Lanka relations in the near future. Sri Lanka requested assistance from several countries, including China and India. India has also been a saviour and a loyal friend to Sri Lanka. The crisis has strengthened the two countries' economic relations. Over the last two years, Sri Lanka has repeatedly requested India's assistance. Given China's growing economic presence in India's neighbour, India has seized this opportunity to expand its economic presence in Sri Lanka. India's access to credit facilities for Sri Lanka would almost certainly result in India surpassing China as the top source of imports for Sri Lanka. The crisis has also provided India with an opportunity to advance its geopolitical interests in Sri Lanka by increasing its presence in strategically important areas. India has shown to be a more reliable neighbour than China. Aside from the opportunities listed above, India faces some challenges. To begin, if the crisis continues, there will be a large influx of migrants from Sri Lanka to India, particularly to the state of Tamil Nadu. This will be a significant challenge because we need to be well prepared to deal with the migration crisis. Second, China is heavily investing in Sri Lanka to counter India's relationship with the country. If China meddles in Sri Lanka's internal affairs, it will pose a serious threat to India in the future. Thirdly, There is a possibility of a social crisis in Sri Lanka, and if this occurs, there is a high possibility of the LTTE (Liberation Tigers of Tamil Eelam) reforming, which would pose a significant threat to India.

Steps have been taken to combat the economic crisis:

Domestic Measures: The Sri Lankan government has imposed import restrictions on a number of "non-essential" commodities. School exams were postponed indefinitely due to a paper shortage. Sri Lanka sent troops to petrol stations last week in response to protests by thousands of people waiting in line for fuel. The country's central bank raised interest rates to combat rising inflationary pressures. The rupee has been devalued by the central bank of Sri Lanka by up to 15%. It has set an exchange rate ceiling of 230 rupees per dollar, up from the previous ceiling of 200-203 rupees per dollar, in effect since October 2021. In December, the Central

Bank announced a slew of measures, including an additional 10 rupees per dollar as an incentive. Remittances fell 61.6 % to \$ 259 million in January from \$ 675 million the previous year, indicating a slight effect.

International Measures: Sri Lanka has asked China to modify its debt repayments in order to help it get through the financial crisis. China is also in talks with the government about providing an additional US\$ 2.5 billion in credit assistance. Sri Lanka has requested an additional US\$ 1 billion credit line from India after signing a US\$ 1 billion credit line with New Delhi earlier this month. In addition to the credit lines, India offered Sri Lanka a US\$ 400 million currency swap and a US\$ 500 million credit line for gasoline purchases earlier this year.

The “new alternative Budget: Privatization of the country's loss-making national carrier Sri Lankan Airlines, as well as printing more money to pay state sector employees, could be a way out of the debt crisis for Sri Lanka. However, it is easier said than done. The country has defaulted for the first time in 70 years as it struggles to pay \$78 million. This has harmed the country's reputation and made it difficult for it to borrow the funds required to compete in the international market. The fiscal deficit for the year is 2.4 trillion Sri Lankan rupees, or 13% of GDP.

Conclusion

Sri Lanka, formerly known as Ceylon, is one of the most beautiful islands in the world. Sri Lanka is a South Asian country with a Democratic Socialistic Republic. Sri Lanka's current population is 2.15 crores in 2022. The Sri Lanka Rupee is the country's currency, and it is issued by the Central Bank of Sri Lanka. In Sri Lanka, the rupee symbol is commonly used as the currency code LKR. Misguided and flawed policies are largely to blame for Sri Lanka's economic crisis. This article sheds light on Sri Lanka's economic mess; the GDP growth rate has slowed, the investment and savings rate has fallen, imports have increased while exports have decreased, and public expenditure and debt have skyrocketed. As a result, the mismanagement of planners and administrators is to blame for the deep crisis. In recent years, most policymakers around the world have introduced popular schemes to stay in power for an extended period of time. As a result, such popular schemes would undoubtedly harm the economy and eat away at the fruits of economic growth.

