



Unprecedented Economic Crisis In Sri Lanka And Endangering Its Future Existence: A Review

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Abstract:

The study has examined how the current economic crisis in Sri Lanka is a result of its long-standing flirtation with IMF-imposed conditionality and how it has been exacerbated by the government's ill-advised organic farming experiment. Without a correction, Sri Lanka faces further economic hardship. Using the screening technique, the study focused and highlighted the Continental Studies, Objectives, Variables, Results, Publishers and Year of Publication of the Sample Cited Papers to provide a summary of research trends. The applied study can motivate academic researchers, scientists and scholars to assess the impact and consequences of the economic crises in Sri Lanka on the lives of masses of people. In our age of narrative, the dominant explanation of the crisis in mainstream media centers around the alleged 'Debt trap' that China has imposed on Sri Lanka. The aim of the study is to find out the reason of economic crisis in Sri Lanka and the recovery methods for reducing the impact of economic crisis on Sri Lanka's developments.

Keywords: Sri Lanka, Economic Crisis, Financial crisis, Covid-19, Devaluation and e-journals.

Introduction

Sri Lanka is a small island nation off the southern coast of India. It is bordered by the northern coastal plains, hills, and mountains in the center of the island. The current economic crisis of Sri Lanka is largely due to the mismanagement of the government over the past few months. Finance and incorrect tax cuts over the years, as well as the effects of the Covid-19 pandemic, have led to a decline in the country's foreign exchange reserves, a high level of debt, inflation, and recession. The government of Sri Lanka declared in 2021 the worst economic crisis that the country has faced in 73 years. A food emergency was declared in August 2021, but the government denied that there was a food shortage. Sri Lanka's Minister for Energy and Mineral Resources, Udayah GammanPila, has said that the current economic crisis could lead to financial disaster for the island nation. The country's current economic crisis, which began in 2019, has led to an unprecedented level of inflation, a near-complete depletion of its foreign exchange reserves, and rising prices of essential commodities. The cause of the crisis is believed to have been a combination of tax cuts, fundraising efforts, national policies to transition to organically or bio-farmed production, events such as the Easter bombings in 2019, and the effects of the covid pandemic. The economic crisis caused by the pandemic led to protests across Sri Lanka in 2022.

How Financial crisis-worsened

The country's worst crisis since its independence from Britain in 1948 was partly caused by the lack of foreign exchange. This means that the country cannot afford to pay for basic food and fuel imports. As a result, the country's inability to pay for its necessities led to a serious shortage, pushing prices to record highs. Critics say the root of the crisis lies in an economy that has been mismanaged by successive governments. This created and perpetuated twin deficits and budget deficits in addition to the current account deficit. Government of countries has temporarily suspended repayment of its external debt while waiting for negotiations with the IMF, which is scheduled to begin later this month. This move violates many of its payment obligations. This affects all issued series of bonds issued in the global market, foreign currency loan agreements with commercial banks and institutional lenders, and the amount paid by the Republic and state-owned enterprises. Given the state of foreign exchange reserves and the worst economic crisis, this decision is a last resort. The IMF has assessed its debt situation, unsustainable estimates indicate that the country has nearly \$ 35 billion in outstanding debt and about \$ 7 billion will be paid soon. Road imports have been introduced due to the lack of foreign currency reserves, and there is a shortage of essentials such as fuel, milk powder and social unrest. Inflation has risen by double digits.

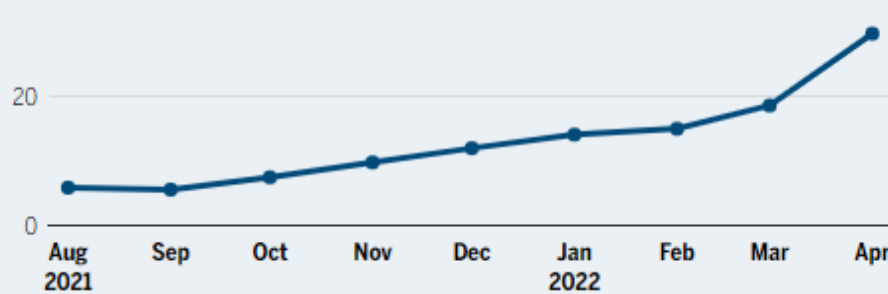
The war in Ukraine disrupted the supply chain and exacerbated the problem of the county's tourism-dependent economy, already tense by the Covid 19 pandemic. The tragic organic food experiments have severely affected the country's agricultural sector and led to food shortages. Rating agencies downgraded Sri Lanka, effectively shutting it out of the international capital markets, as the county's lucrative tourism industry and remittances of foreign workers were damaged by the pentamic. Second, Sri Lanka's debt management program, which relied on access to these markets and detailed foreign exchange reserves, fell by nearly 70% in two years. The country's foreign exchange reserves are below \$ 50 million. This forced the government. Suspend \$ 7 billion in external debt payments to be paid this year.

How crisis disrupted life

People in the country have been queuing for months because of the forex crisis which has caused an acute shortage of imported food, medicines and fuel. Jobs have been lost in almost all households. The drop in income has also led to an increase in poverty rates. The World Bank estimates that the share of the poor based on a \$3.20 daily income rose to 11.7 percent in 2020, or by more than 5 million people, from 9.2 percent in the previous year. The latest economic crash compounded by the Russia-Ukraine conflict that has led to skip hike in old prices, served another gut punch and making seener of despection and panic more and more common among the people. Fuel shortages have led to long lines at gas station and rolling power cuts across much at the country. Due to a severe diesel shortage, several Thermal power plants have been shut down, resulting in rolling power outages across the country. The sudden surge in commodity prices has caused inflation to reach unprecedented levels. In April 2022, the Country's inflation figure stood at nearly 30% way above its central bank target range of 46% over the medium term.

Sri Lanka's inflation has been rising exponentially

Graph shows headline inflation rate (%)



Meanwhile, currency value has fallen significantly over the year upto April 1, 2022. Considering exchange rate fluctuations, the Sri Lankan rupee fell 31.6% against the Indian rupee, the euro fell 31.5%, the British pound fell 31.1% and the Japanese yen fell 28.7% during this period.

SL rupee is one the worst performing currencies now

The Central Bank of Sri Lanka devalued the currency on March 9, but it has been tumbling far more than it had expected or prepared for. Graphic shows value of Sri Lankan rupee against US dollar

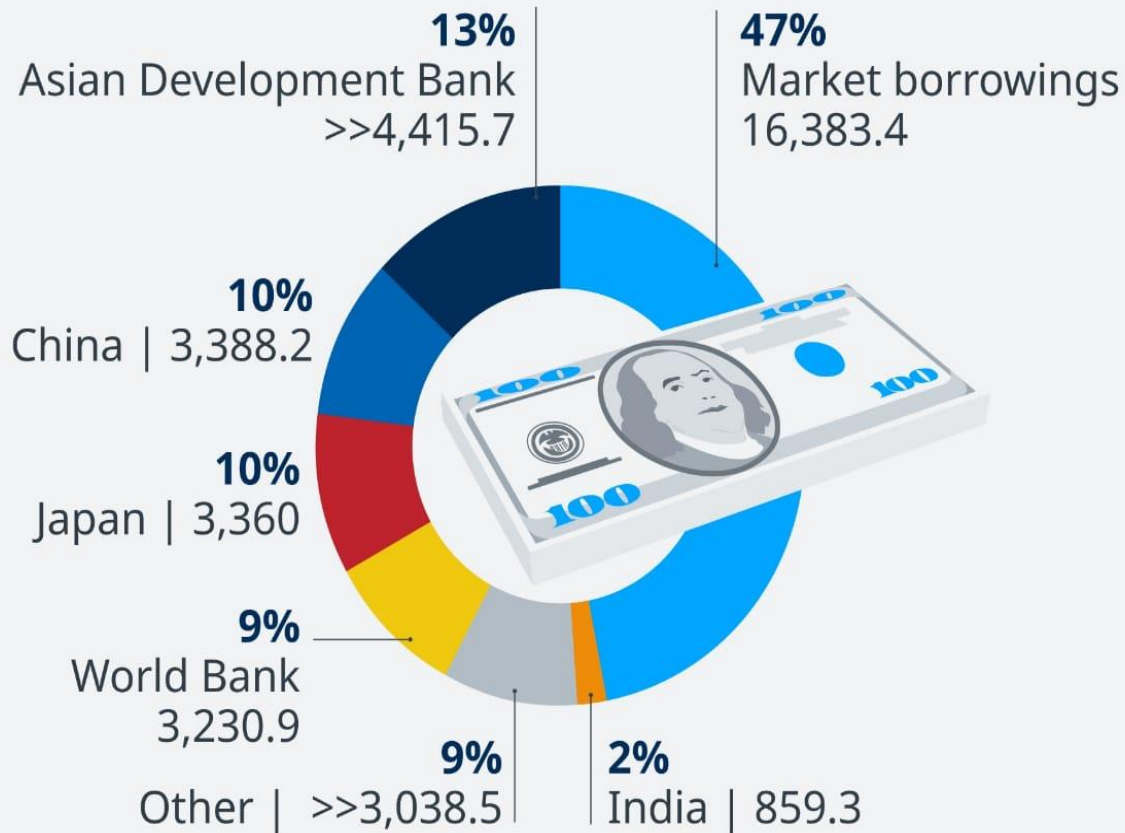


Should politics be blamed?

As Sri Lanka struggles with the crippling economic crisis, it is difficult to overstate the Rajapaksa family's influence in all of this. At the time, Gotabaya was defense secretary and was well-known for his role in the 2009 elections to end the civil war against the Tamil rebels. In early 2022, President Rajapaksa called on China to reschedule payments for about \$ 3.5Bn of debt owed to Beijing, which in late 2021 also provided Sri Lanka with a \$ 1.5Bn yuan exchange rate.

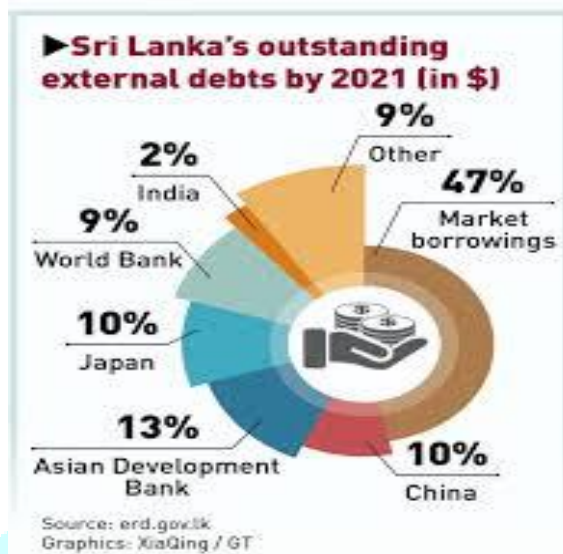
Sri Lanka: Foreign debt summary

as of end April' 21 (by major lenders in million US dollars)



Source: Department of External Resources, Sri Lanka

The Sri Lanka's outstanding external debts may be depicted as below:



How did it happen in trouble and what happened next?

Sri Lanka's economic crisis has escalated into deadly violence that has killed eight people and injured more than 200 so far. The country's northern neighbor, India, has lent billions of dollars to help Sri Lanka pay for basic services. China, which recently drastically altered infrastructure projects in Sri Lanka, is trying to increase its influence in the country, analysts say. Meanwhile, the whole of Asia has taken a measured stance but said it supports the Island's efforts to restructure debt. The first way out of Sri Lanka's dire economic situation would be to get a stable government in place. The government was dissolved automatically following the resignation of Prime Minister Mahinda Rajapaksa, and there is no Prime Minister yet. Several business groups have learned from the world's politicians how to quickly find a solution, as the violence escalates and houses and cars are torched in some areas.

The President may attempt to form a "unity government," but it will be difficult to get opposition members to agree to join the government. The Constitution grants the President wide-ranging powers, including commanding the armed forces, leading the cabinet, and appointing a Chief Justice, a Chief of Police, and others.

The critical negotiations between the government and the International Monetary Fund (IMF) over the recovery plan and restructuring of Sri Lanka's private debt could be messy

. Objectives of the study

The overall objective is to do the future research. It could be to add to the knowledge in the area, to address the existing gap in the knowledge, to devise and test a solution to an existing problem. Research objectives are the outcomes that aim to achieve by conducting research. Its purpose is to drive the research project, including data collection, analysis and conclusions. Research objective also helps narrow in on the focus of key variables, guiding through the research proceeds. To determine which ones require the most resources classify the variables. It also reviews the trace of improvement on its underpinning factors, controversies, ongoing debates and its association

with the implementation. Finding the sample papers with synthesization of the thematically purpose of the study. Furthermore, additional analysis of articles, variables and applied statistical methods were also attempted. The study follows a logical structure with a brief focused plan to evaluate the structural framework of the study.

Methodology

This study has attempted to focus the particular synthesized broader issues, detecting road map with a logical structure to evaluate the fundamental implementation in a structural lucidness. Accordingly the review has been carried out in the following steps:

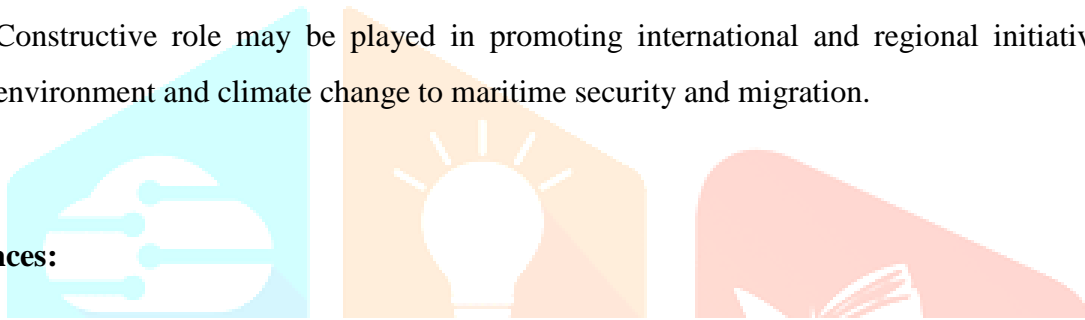
- (a) **Searching for literature:** The current review has been limited to papers published in journals like “ Human Rights Council holds separate interactive dialogue on the human rights situation in Eritrea and in Sri Lanka”. United Nations human right office of the High Commissioner 4th March, 2022 “Sri Lankan PM to visit India to formalize Economic Relief package”, The Hindu, 15th Feb, 2022 “Annual Report 2020”, Central Bank of Sri Lanka, 30th April, 2021. However, in these Journals, Newspapers and Reports specifically focus on the crisis and disruption of lives.
- (b) **Practical Screening:** We assumed the downloaded papers satisfied all requisite characteristics for treating them as “Certified Knowledge” having wider reliability, validity and acceptability of their findings in tune with the topic. Thereafter, a rigorous screening, concerning the area of the study, type of data, objectives, variables, method and results reduced the no. of 35 papers which were retained for the current review.
- (c) **Data Extraction:** The papers were reviewed to trace the improvement, if any, its underpinning factors and its implementation.
- (d) **Synthesis:** Findings of the sample papers were synthesized for the study. Furthermore, additional analysis of various kinds of applied variables and statistical methods were also attempted.

Conclusions:

At the end of the day, we hope the country will be able to overcome this economic crisis in the near future and restore stability in the economy and the quality of life for the people through proper structural reforms with proper financial institutional development or by devaluation of the currency on the instructions of the International Monetary Fund (IMF). On the other hand, the developed countries that invested in the country may be suggested to waive off the loan to a certain extent or provide liberal credit terms to overcome this tragic situation of the country. The neighboring countries such as India and European Countries may also support the country with both social and financial assistance to overcome the situation.

Recommendations:

1. World Food Program (WFP) may work in Sri Lanka to bring life saving assistance in emergency basis and to support sustainable and resultant livelihood to achieve a world with zero hunger. WFP is on the frontlines of multiple, simultaneous emergencies to determine which ones require the most resources.
2. If, Suitable and effective Economic policy is adopted by the Govt. of Sri Lanka immediately to revive the crisis in order to achieve sustainable development and restructuring the Monetary Policy of the country, then the present scenario may be changed.
3. With a domestic market of 20 Million Consumers along with increase in per capital income, the country may to some extent improve its current situation and ensure its long term growth.
4. Creation of more jobs for the people may be possible with the investment and trade resulting from the Singapore FTA.
5. Constructive role may be played in promoting international and regional initiative ranging from the environment and climate change to maritime security and migration.



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