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Sri Lanka's Economic Crisis

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Abstract

The government and the people of Sri Lanka are currently experiencing serious challenges as a result of the country's three-year-old economic crisis. Currently, Sri Lanka is going through a political and economic crisis, along with inflation and widespread discontent among the populace. With 22 million people live in Sri Lanka, a nation that is experiencing the worst economic instability in seven decades, making it difficult for its citizens to purchase food, medication, and other necessities. Over the past six months, at least 500,000 more Sri Lankans have plunged into poverty. There are no adequate food facilities, gasoline, or medical supplies, and all of the necessary surgeries have been postponed. According to doctors, Sri Lanka's economic turmoil is increasing the death rate there.

Introduction

After the independence of Sri Lanka in 1948, the world looked at the newly independent country with optimism because of its geographical location. Sri Lanka's economy is mainly dependent on two factors which is Tourism and Agricultural exports which majorly includes garments, rubber, tea and coconut. Though they collect money from this sector but they had also borrowed huge sum of money from foreign countries which is a major reason for the outbreak of crisis. Common mases was unable to maintain even a minimal life. Inflation was running at more than 50%. Various factors like economic mishandling, a rise in foreign debt, the rising prices, governmental issues and Covid 19 pandemic triggered the situation. Today, Sri Lanka does not have foreign reserves to even buy essentials like necessary goods fuels for services of buses trains and vehicles. Sri Lankan reserves drop to \$ 1.93bn in March, \$8.6 bn due in payments this year. A series of debts are due in 2022 including domestic and foreign debts. As Sri Lanka failed to pay the debts to foreign countries it makes it harder for them to further borrow the money it needs on international markets. The Sri Lankan currency fell to its lowest in April 2022, as the world's worst performing currency. According to a report published by Sri Lanka in April 2022, the country has taken steps to temporarily default on all of its external debts to prevent a hard default. Failing to control the situation President Gotabaya Rajapaksa declared a state emergency which resulted for months of months protest in the island. In the meantime, the president fled resigned and fled from the situation which flamed the situation. In its hard time World bank has agreed to lend

\$600m. India has also made Sri Lanka an offer of almost \$1.9 billion. The remainder of the research paper discusses several causes of the economic crisis in Sri Lanka because it did not start suddenly.

Review

According to External Affairs Minister S. Jaishankar, India is focusing on aiding its neighbour as the economic situation in Sri Lanka is a significant issue

Methodology

The economic crisis in Sri Lanka is the main theme of this research. This document included a review that was directed. The review was conducted using online resources that gave me access to a variety of subject-related information. The paper's technique is a secondary methodology. The paper is written in a chronological order, beginning with a list of the crisis's consequences before moving on to its causes. The information was gathered from a variety of sources, including newspapers, reputable articles, editorials, news analyses, and links on Google. The "Sri Lankan crisis" only produced negative news from the previous two years because there had been no positive news about it disseminated abroad. Additionally, it is an interesting finding when looking for Conclusion and debate.

Result and Discussion

Many reasons for crisis in Sri Lanka are available

There are many reasons for the economic crisis in Sri Lanka. There is a problem within the nation. People may refer to certain political circumstances as fate because they are out of Sri Lanka's control. Many of the country's continuing issues are seen to have their origins in China. The state of affairs in Sri Lanka now is the result of years of poor management and lax policies. Sri Lanka has a serious problem. Spending outpaces income and imports outpace exports, resulting in a trade deficit for the nation. A budget deficit is also present. It's the perfect storm for calamity. Sri Lanka's response to this catastrophe has been devastating.

Causes of the Sri Lankan crisis

Sri Lankan voters gave the present administration a 52% majority, which was followed by a number of large tax cuts. The government's revenue and budgetary policies have suffered as a result of the current president of Sri Lanka's strategy of significant tax cuts. Rising fiscal deficits are the effect of this. The Pay As You Earn (PAYE) tax was abolished, VAT was reduced, and tax-free thresholds were raised in Sri Lanka. The sovereign credit rating has been reduced by rating agencies, making it more difficult to incur new debt. Investors left Sri Lanka as a result, making it impossible for the government to access global markets. The Central Bank of Sri Lanka (CBSL) printed the most money on one day in a single year (2022)—119.08 billion rupees—on April 1. Despite being aware of the revenue loss in 2021, the current president viewed it as a "investment" and has no plans to raise taxes for another five years. The International Monetary Fund (IMF) issued a warning that the economy would collapse if money was continually printed. Due to China's external debt making up only about 10% of overall debt in April 2021, according to the Australian Lowy Institute, Sri Lanka was not caught in a Chinese debt trap. Sri Lanka anticipates to back its creditors \$4 billion by the end of 2022, while as of April 2022, government holdings were US\$2.3 billion. International capital markets are owing a whopping 47 percent of Sri Lanka's total foreign debt stock. From March 2022, Sri Lanka's foreign reserves decreased to US\$1.9 billion.

Due to declining national currency exchange rates, rising inflation, and pandemic travel restrictions, the government has declared an economic emergency. On April 12, 2022, Sri Lanka stated that it would default on its 51 billion US dollar foreign debt. A significant economic catastrophe has resulted from the prohibition of chemical fertilisers and pesticides. Due to a 20% decline in rice production in just the first six months, the nation was compelled to import rice. During times of peace, Sri Lanka intends to ration necessities. Farmers of tea said the business was in a crisis state and that organic farming was ten times more expensive and produced just half as much as conventional farming.

According to a recent announcement, Sri Lanka would only authorise organic farming and will outlaw any pesticide and inorganic fertilisers. The 2019 Easter bombings and the ensuing COVID-19 pandemic had a significant impact on Sri Lanka's tourism sector. Thirteen percent of Sri Lanka's GDP comes from the tourist sector. Despite the negative effects on the economy and the lives of its citizens, the economy will rebound in 2021, according to a World Bank assessment from April 2021. Due to the continuing Russian-Ukrainian War, Sri Lanka's economy is already weak. Since the bulk of visitors to Sri Lanka come from either Russia or Ukraine, those two countries have a significant influence on the country's tourism business. In 2022, when Russia invades Ukraine, Sri Lanka has experienced additional financial difficulties. As a result, Sri Lanka's economic recovery has been halted by the Ukrainian crisis.

They want to reduce charges if they are re-tagged and ensure that people would pay lower levies, in line with the present government's election promises. With more than 52 percent of the vote, the present government was declared the winner of the election in November 2019, and a number of large duty reductions ensued. Government revenue and financial initiatives have suffered as a result of the current chairman of Sri Lanka's strategy of significant duty reductions, resulting in skyrocketing budget insufficiencies.

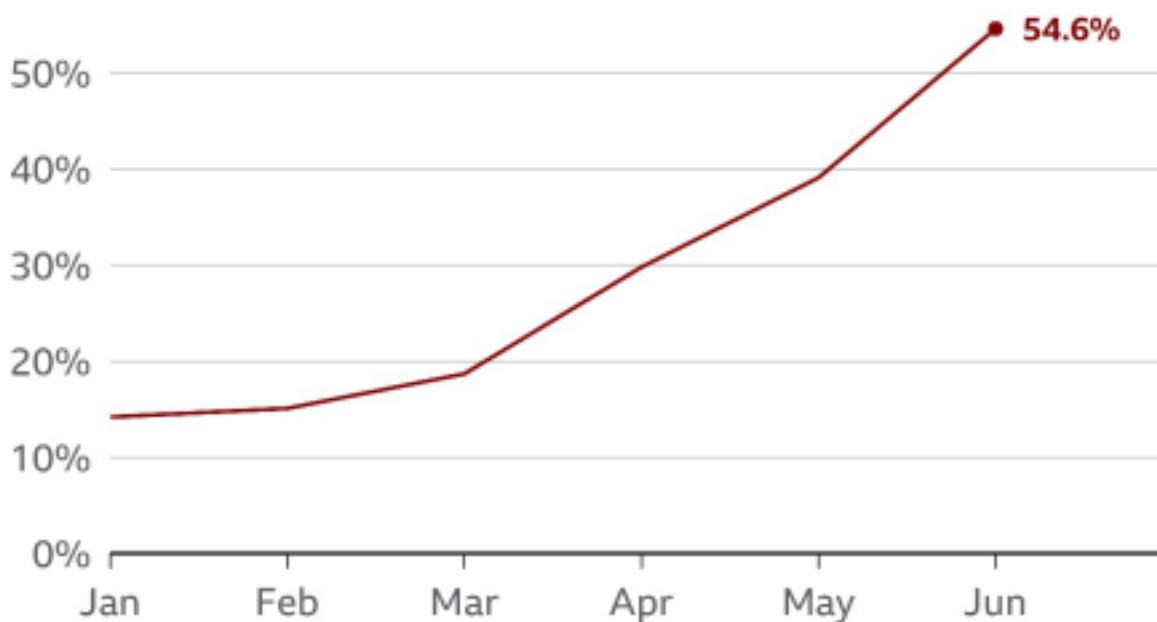


As a result, investors withdrew from Sri Lanka, making it difficult for the government to fulfil international requests. Even though the current President was concerned about the loss of revenue in 2021, he viewed it as a "investment" and doesn't plan to raise taxes for another five years. The International Monetary Fund (IMF) advised the Central Bank to stop producing Plutocrat and instead boost interest rates and levies while lowering expenditures, but the Central Bank instead started publishing Plutocrat at a record pace in order to pay for government expenses. While Sri Lanka's government had US bones 2.3 billion in reserves as of April 2022, it anticipates paying its debtors US bones 4 billion by the end of 2022. Transnational capital requests, which account for 47 chance, are responsible for the large maturity of Sri Lanka's foreign loan stock. Transnational development banks have a further 22 percent probability, and Japan has a 10 percent chance of Sri Lankan foreign debt. The President's office announced in January 2022 that it would ask China to postpone paying off its debt during meetings with the country's foreign minister. The Global Credit Conditions agency stated in 2020 that Sri Lanka's financial support sources were insufficient to satisfy the country's debt service obligations, which were estimated to be worth just over US bone 4.0 billion. Treasury arrangements must be successful, according to Bellwether, for Sri Lanka to overcome its widespread issues with debt repayment. According

to Bellwether, Sri Lanka would have a reliable financial plan and financial programmes, a duty increases to re-pay debt, a fall in interest rates, and the opening of significances that would allow duty profit to flow back into the government were the debt extreme to be resolved. Although raising interest rates and restricting domestic credit are both efficient strategies to raise money to pay off foreign debt, doing so continuously for a number of cycles is impractical. If their foreign reserves rise after paying off their debt, investors might be able to regain their trust, but it will be a difficult process that may or may not be successful given the current state of affairs.

Prices are rising sharply in Sri Lanka

Inflation (consumer prices index) Jan to Jun 2022



Monthly inflation, figures calculated year-on-year

Source: Sri Lankan government



The government proclaimed a profitable exigency in September 2021 as a result of declining public currency exchange rates, increased affectation due to rising food prices, and epidemic travel restrictions that further decreased income. Due to this, Sri Lanka's foreign reserves decreased to US\$1.9 billion as of March 2022, which is insufficient to satisfy US\$4 billion in foreign debt and US\$1 billion in ISB-International Sovereign Bond payments due in 2022. The government paid US bone 500 million in international sovereign bonds that were due in January 2022 despite the fact that numerous judges and experts across the board encouraged the government to postpone the payment of its ISBs in order to save foreign reserves. Sri Lanka announced on April 12, 2022 that it would default on its US\$51 billion foreign debt. The current administration created another boo-boo in April 2021. It has been made clear that Sri Lanka will only tolerate organic husbandry and will outlaw all pesticide and inorganic diseases. By prohibiting the import of diseases, Sri Lanka was protecting its foreign exchange reserves. Millions of bones were lost as a result of the decline in tea production brought on by the toxin ban alone.

Impact of Sri Lankan Crisis

The current crisis in Sri Lanka is the worse in 73 years. Due to the nation's escalating costs and regular blackouts, the president was forced to step down. The COVID-19 outbreak has negatively impacted the tourism industry as well. fuel and power Sri Lanka has faced supply issues, including a lack of cooking

gas, electricity, and petrol. Additionally, the cost of crude oil has skyrocketed. The cost of life has increased dramatically in Sri Lanka due to inflation.

Inflation in February 2022 was also 17.5%. The Sri Lanka's educational system's effects Exams have been postponed indefinitely across the nation due to a lack of printing paper due to the lack of foreign reserves.

Online education has also been impacted by the power shortages. Sri Lanka's medical sector and its effects: There has been a lack of pharmaceuticals in the sector, which when coupled with power shortages is likely to lead to the collapse of the healthcare system. The third-largest industry in the country, tourism has a significant impact on the economy. Impacts on the export sector: Sri Lanka is primarily dependent on the export of tea and clothing, but many international firms have stopped doing business there and moved their orders to India. The effects of the economic crisis on sports and entertainment include temporary service suspensions by internet and television providers. Due to the host's incompetence, even the IPL had to be stopped in the middle. Due to a lack of funding, Sri Lanka has also been unable to send many of its sports teams to contests. The situation has had a serious impact on the country's foreign reserve.

Assume that after learning that exams have been cancelled, the person has no cause to rejoice. The exams, which are a part of the nation's continuous evaluation system for students, have been postponed indefinitely. Many Sri Lankan seminaries announced in March 2022 that they would postpone their term, mid-year examinations indefinitely due to paper shortages across the board, which were mostly brought on by a lack of foreign funds to purchase paper. Term exams were scheduled to begin on March 28, 2022, but due to a lack of posting paper and essay lists, this date has either been totally cancelled or postponed. The extreme fiscal situation in Sri Lanka will have an impact on approximately 4.5 million students. Sadly, frequent power interruptions have had a severe negative impact on online tutoring and literacy. In addition to the epidemic, the power extreme has a negative psychological and physical impact on students.

Croakers in Sri Lanka have warned that many people may die because the nation's healthcare system is on the verge of disintegrating owing to devastating power outages and a lack of critical information. All scheduled procedures at the Peradeniya Teaching Hospital (PTH) have been postponed due to insufficient medicine supply. Routine procedures have also been put on hold, and a large number of laboratory testing have been scaled back, in multiple other hospitals. Additionally, several state-run hospitals were lacking on urgent life-saving medications. The Medical Council of Sri Lanka (MCSL) reported that more deaths are anticipated to occur than have been offered as combined death sacrifices. If stocks aren't replaced quickly, threats could come from COVID-19, the 2004 raffle, and the Civil War. The Lanka medical extremity was classified as an unexpected charitable extremity by the Singapore Red Cross association.

Hospitals were thus running out of endotracheal tubes to ventilate newborns, infants, and kids. Croakers asked that neonatal ETTs of various colours be donated by the foreign Lankan populations. The Sri Lanka Medical Association (SLMA) claims that all hospitals in Lanka no longer have access to imported medical equipment or necessary medications. In order to get oxygen into the baby's lungs, the hospitals had to castrate and reuse endotracheal tubes. In order to treat situations, doctors have been forced to employ outdated and previously used equipment due to a lack of fresh medical equipment. It has also been claimed that croakers have performed medical procedures using the light from cell phones. Pastoral croakers have also been forced to repair wounds in the dark as a result of frequent power outages. Additionally, there are been allegations of a shortage of emergency medications for treating heart attacks.

The third-largest source of foreign cash for Sri Lanka, after remittances from its workers, comes from the tourist industry. Additionally, this assiduity is a key employment and a source of foreign revenue for the

government. The tourism industry has been adversely impacted by the biggest fiscal crisis the nation has ever experienced. India, Canada, and the United Kingdom all gave their residents advice to be aware of the lucrative ongoing insecurity in Sri Lanka. Some European and Canadian nations advised their residents to stockpile food, water, and energy in case of prolonged disruptions, to ensure that adequate drug inventories are on hand because they might not always be available, and to pay for original equipment manufacturers' costs. The most recent updates' media. The UK is Sri Lanka's third-largest source of incoming tourists, behind Russia and India. About 5% of Sri Lanka's GDP is attributed to the country's tourist industry. India, the UK, and China are the top three requesters. The profitable extreme has a repressive impact on the tourism industry.

Conclusion

The explanation makes clear that Sri Lanka's economy has drastically declined and that fresh reforms and policies are urgently required to restore it. Even certain essential goods are in short supply. To secure the country's total economic recovery, the Sri Lankan government needs to take action. In order to restore the old, wholesome economy, the government should also work with Tamil political leadership. Additionally, the eastern and northern regions, which were affected by the civil war, require economic expansion. Government should raise domestic tax revenues and cut spending in order to escape this protracted predicament. The government should be restructured with stringent measures. Sri Lanka should receive financial assistance from its neighbours. Similar to how India shouldn't let the Chinese seize power over expanding areas of Lanka. India should support them financially instead.

Sri Lanka still has a long way to go to tackle this issue, which has been escalating for a while. Years of fiscal and current account deficits, a sizable public sector, dwindling tax collections, and price subsidies have all contributed to the current predicament. The country is thinking about getting aid from the IMF, but first it needs to restructure its debt. Debt restructuring can be difficult, especially with China, where refinancing is preferred over other debt management techniques. One of the overseas holders of sovereign bonds is suing the Sri Lankan government, setting a dangerous precedent for the country.

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