Emergency in Sri Lanka

What is the issue?

President Gotabaya Rajapaksa declared a state of Emergency in Sri Lanka after the public resentment due to a sharp economic downturn.

What triggered the crisis in Sri Lanka?

- **War time effects**- During the period of the war, budget deficits were high.
- The capital flight that accompanied the global financial crisis of 2008 drained Sri Lanka's foreign exchange reserves.
- The IMF loan in 2009 was obtained with the conditionality that budget deficits would be reduced to 5% of the GDP by 2011.
- **Post war growth**- Sri Lanka's post-war GDP growth was reasonably high at 8-9% per annum between 2009 and 2012.
- The economy was on a downward spiral after 2013 as global commodity prices fell, exports slowed down and imports rose.
- The government approached the IMF in 2016 for another 1.5 billion dollar loan with conditionality for a three-year period between 2016 and 2019.
- The IMF package led to a deterioration of Sri Lanka's economic health where GDP growth rates shrank to 2.9% in 2019.
- Investment rate and savings rate fell, government revenues shrank and government debts rose.
- **New shocks**
    - The Easter Sunday bombings of 2019 deterred tourists
    - The pandemic since early 2020 drained the economy
    - The government's tax revenue was cut substantially
    - The "organic only" agricultural policy (chemical fertiliser ban has been rolled back) impacted the food security
- The current Sri Lankan economic crisis, then, is the product of
    - the historical imbalances in the economic structure
    - the IMF's loan-related conditionalities
    - misguided policies of authoritarian rulers and
    - the official embrace of pseudo-science

What were the economic indicators?

- Fall in key foreign revenue earning sectors
- Fall in earnings from tourism, exports, and worker remittances
- Rise in imports
- A glaring trade deficit
- Balance of Payments problem
- Huge foreign loan obligations
- Drop in domestic production

How did the crisis manifest itself on the ground?

- The long-simmering crisis came into limelight during 2021 food emergency, when supplies were badly affected.
- It was soon followed by fears of a sovereign default in late 2021, which Sri Lanka prevented.
- The island continued facing severe shortage of essentials from fuel, cooking gas, and staple food grains to medicines.
- The fuel shortage has led to long blackouts (upto 13 hours) across the island.
- The value of the Sri Lankan rupee has dropped to 300 against a U.S. dollar putting importers in a difficult spot.
- The COVID-induced salary cuts and job losses and the rising living costs have brought more agony.
- Batches of Sri Lankan Tamils arrived on the Rameswaram coast trying to escape a dire situation in Sri Lanka posing a risk for refugee crisis.
- Sri Lankans are in anger, going by public demonstrations and protests and want the President to step down immediately.

Has the government sought help?

- India has extended 2.4 billion dollars this year to help the country reel out from the crisis.
- China is considering a fresh request from Colombo for 2.5 billion dollars assistance, in addition to the 2.8 billion dollars it has extended since the pandemic broke out.
- The government has decided to negotiate an International Monetary Fund programme, while seeking support from other multilateral and bilateral sources.

References

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