Friend in Need- Sri Lanka's Economic Crisis

Why in news?

External Affairs Minister S. Jaishankar's assurance that India will support Sri Lanka for overcoming the economic and other challenges posed by COVID-19 pandemic was significant and timely.

What is the issue in Sri Lanka?

- Sri Lanka is facing an economic crisis which includes
  - a credit crunch
  - a slump in GDP spurred by COVID-19 losses to tourism, exports and remittances
  - foreign reserves that reduced from 7.5 billion dollars in 2019 to 1.6 billion dollars in November 2021
  - pending debt repayments of more than 7 billion dollars expected in 2022
- The most immediate problems come from rising unrest.
- President Gotabaya Rajapaksa must make a decision on whether to service debts to bonds with an instalment of 500 million dollars due on January 18, or to default for the first time ever.

What is Sri Lanka's appeal in this regard?

- The Rajapaksa government reached out to India and China, which are most likely to help given their respective interests in the island.
- **China's help**- Chinese Foreign Minister Wang Yi discussed a full debt restructure of Sri Lankan borrowings.
- China has also extended a currency swap arrangement of 1.5 billion dollars.
- **India's approach**- A four-pronged" initiative has been decided that included

1. Lines of Credit (LoC) towards the import of fuel, food and medicines
2. Currency swap
3. Debt deferrals from India to Sri Lanka
4. Conclusion of the Trinco-oil farms project

- The **Trincomalee project** MoU was signed in January 2022 after decades of delays.
- India has extended 400 million dollar under the "**SAARC currency swap**" arrangement.
- India has agreed to a partial deferral of a 500 million dollar settlement from Sri Lanka by two months
- The 1.5 billion dollar LoC for essential imports is reportedly under way.

What is the significance of India's current approach towards Sri Lanka?

- New Delhi's assistance might address some problems in the complex relations between India and Sri Lanka.
- It is important to note that in times of peril, New Delhi and Colombo have established a robust channel of communication and demonstrated an ability to act on promises quickly.
- Issues that remains a sticking point include
  - the friction over fishermen's rights
  - pending political solution for war-torn Tamil areas
  - concerns over Colombo's strategic ties with China

Reference

1. https://www.thehindu.com/todays-paper/tp-opinion/friend-in-need/article38280043.ece

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