

SRI LANKA

ECONOMIC CRISIS

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The state of Sri Lanka is in the midst of the worst economic crisis ever seen. It has defaulted on its foreign debt for the first time since independence, and the country's 22 million people are facing dilapidated 12-hour power cuts and severe shortages of essential commodities such as food, fuel, and medicine. Inflation is at an all-time high of 17.5%.

The country depends on the importation of many essential commodities including petrol, food items, and medicines. Many countries will hold foreign currency in their hands to trade for these goods, but Sri Lanka's foreign exchange deficit is at the point of skyrocketing.

After independence from the British in 1948, Sri Lankan agriculture was dominated by export-oriented crops such as tea, rubber, and spices. A large portion of its GDP came from foreign exchange earned from the export of these crops. The money was used to import essential food items. Over the years, the country began to export garments and unskilled labor to earn foreign exchange apart from that is earned by tourism and remittances from expatriates. Any drop in exports comes as an economic shock and puts foreign exchange reserves under pressure.

Sri Lanka was last granted an IMF loan in 2016. For the three years from 2016 to 2019, the country received US \$ 1.5 billion. Conditions were demanding, and during this time the health of the economy deteriorated. Growth, investment, savings, and incomes fell and the debt burden rose. In 2019, the situation worsened with two economic shocks. First, in April 2019, a series of bomb blasts rocked churches and luxury hotels in Colombo. These eruptions led to a

sharp decline in tourist arrivals - some reports 80% down - and foreign exchange reserves out. Second, the new government under President Gotabaya Rajapaksa was irrationally cutting taxes.

In March 2020, the COVID-19 epidemic spread. In April 2021, the import of fertilizer was completely banned to prevent the outflow of foreign exchange reserves. Sri Lanka was declared a 100% Organic Farming Country. This policy, which was scrapped in November 2021, led to a sharp decline in agricultural production and required more imports. But foreign exchange reserves were still under pressure. The decline in the productivity of tea and rubber due to the fertilizer ban also contributed to the decline in export earnings.

Bilateral assistance such as financial support from Bangladesh, China, and India have enabled Sri Lanka to enhance its gross official reserves and facilitate the repayment of debt due in January 2022. They helped to deal with the fuel shortage. Sri Lanka relies heavily on the US \$ 1 billion from India to meet food and drug import bills. A full understanding of the assistance provided by India depends on the completion of the provisions at the ministerial level. Negotiations with China are also progressing at the moment.

The decline in export earnings led to a shortage of food imports and consequently shortage of food. The prices of these items go up as there is less money to buy food items and other items but there is no

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