

The Issue of the Economic Crisis in Sri Lanka

The Rajapaksa family has maintained a significant presence in Sri Lankan politics and power since 1936. Their calls for tax cuts, in combination with the economic impact of COVID-19 and the ban on synthetic fertilisers and pesticides, have led to significant fiscal difficulties for the Sri Lankan population. These factors have resulted in a slowdown in economic growth, high levels of unemployment, and a decline in living standards for many Sri Lankans.

In 2022, Sri Lanka experienced a significant and widespread protest movement in response to the severe economic crisis that had been afflicting the country. The protests were characterised by the occupation of the offices of the President and the Prime Minister, and were aimed at holding political leaders accountable for the economic crisis. The protests serve as a poignant reminder of the growing discontent among the Sri Lankan population, and underscore the need for systemic changes within the country's political and economic institutions in order to address the root causes of the economic crisis.

Despite initial successes, such as the resignation of the Prime Minister and the dissolution of the cabinet, the reshuffle of the cabinet and appointment of new leaders did not fully address the concerns of the protestors. The cabinet reshuffle implemented in the wake of the economic protests in Sri Lanka in 2022 brought about some positive changes, including the appointment of a competent finance minister and the formation of a debt-restructuring committee.

However, it also brought about negative consequences. The new president, while historically less oppressive towards minorities and less damaging to the economy, has been alleged to have been involved in overseeing pro-government death squads. Additionally, pro-Rajapaksa protestors have been reported to have engaged in violent actions, including physical assault and arson, against opposing individuals and their property. Many Sri Lankans felt that the measures taken were inadequate in addressing the underlying issues that led to the economic crisis, and called for further changes, including the resignation of the President and the elimination of cronyism within the political and economic institutions of Sri Lanka.

Sri Lanka is facing significant debt which is one of the largest causes. According to Bloomberg, \$68 million is due in 2022 to repay debts. The government has been running large budget deficits and has been using monetary policy to finance these, leading to a rapid expansion of the money supply. Additionally, they have been borrowing heavily in order to finance large infrastructure projects and to cover budget deficits, resulting in a rapid increase in debt levels. This, combined with less foreign investment due to political instability and poor economic policies, has led to a volatile economy.

Furthermore, agriculture plays a crucial role in Sri Lanka's economy, as it is a major producer of rice and tea. However, the government's failure to increase production of organic fertilisers or provide subsidies for their acquisition, coupled with regular natural disasters, has led to a rapid depletion of crop yields. This has had a negative impact on the availability of the Sri Lankan dietary staple, further exacerbating the country's economic state.

This has slowed economic growth and made it more difficult to borrow money. Sri Lanka has been forced to rely upon external refinancing to pay off these debts, and the Rajapaksa family has been continuously borrowing since 2007, becoming highly dependent on a fluctuating financial market. This economic crisis has been brewing since 2015, leading many Sri Lankans to question why action has not been taken sooner to address the issue.

Points to consider:

- Is your country a stakeholder in the Sri Lankan economy?
- What mechanisms are you prepared to consider in order to restore the Sri Lankan economy?
- A good policy will tackle the fiscal consolidation, monetary policies, structural reforms, foreign investments, export competitiveness and cronyism to tackle the root of the issue.
How can this be achieved?
- How will you hold those responsible for the economic crisis accountable?
- Will your nation provide aid to Sri-Lanka and if so, how?

Useful links:

https://en.wikipedia.org/wiki/2019–present_Sri_Lankan_economic_crisis

https://en.wikipedia.org/wiki/Economy_of_Sri_Lanka

<https://news.un.org/en/story/2022/04/1115552>

<https://news.un.org/en/story/2022/07/1122902>

<https://thedi diplomat.com/2022/08/how-sri-lanka-can-overcome-its-economic-crisis/>

<https://edition.cnn.com/2022/07/15/asia/sri-lanka-crisis-economy-fix-gotabaya-rajapaksa-saturday-intl-hnk/index.html>

<https://novaramedia.com/2022/06/06/sri-lanka-is-being-held-hostage-by-its-president/>

<https://jacobin.com/2022/05/sri-lanka-crisis-military-rajapaksas-tamils-repression>