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### CAUSES AND IMPACT OF ECONOMIC CRISIS IN SRI LANKA

\*Balai H. K.<sup>1</sup>, Bairwa K.C.<sup>2</sup>, and Meshram M.<sup>3</sup>

<sup>1</sup>Assistant Professor, COA, Indore, RVSKVV, Gwalior, Madhya Pradesh.

<sup>2</sup>Associate Professor (Agricultural Economics), COA, Sriganganagar, SKRAU, Bikaner, Rajasthan.

<sup>3</sup>Assistant Professor, Pt. Shiv Kumar Shastri COA and Research Station, Surgi Rajnandagaon, IGKV, Raipur, Chhattisgarh.

\*Corresponding author Email: [harkeshbalai15@gmail.com](mailto:harkeshbalai15@gmail.com)

#### Introduction:

Various factors contribute to the current economic crisis in Lanka from 2019 to 2022. Such factors include economic mishandling, a rise in foreign debt, diminishing foreign reserves as well as a diminished currency and the rising prices. Apart from tax reductions, money creation, and national policy shift towards organic and biological farming, there were other factors like the Easter bomb attacks, and the effect of the (COVID-19) virus which added to the crisis. Coalition government has lost its majority with March-April 2022, and political unrest has risen, including their resignation from ministerial posts. After a fall in output as well as a shortage of food, switching to organic agriculture has been reversed. Sri Lanka was set aside for a sovereign default as the outstanding foreign exchange reserves would not be enough to meet the country's external debt obligations in 2022. The government was required to pay back an international (sovereign bond) in 2022. A series of debts are payable back in 2022, including domestic and foreign debts. The Sri Lankan rupee fell to its lowest in April 2022, as the world's worst-performing currency, with the US dollar trading in Sri Lankan rupee. According to a report released by the Sri Lankan government in April 2022, it has taken steps to temporarily default on all of its external debt in order to prevent a hard default. Sri Lanka's unblemished record of service of its external debt has also been broken by the announcement. The Governor of the (CBSL) insisted that Sri Lanka would restructure its debt to avoid a hard default. However, both the ground situation as well as analyses of government policy measures and world geopolitical and economic trends, including the fallout from the Russia-Ukraine conflict, indicate that there is a situation of uncertainty over the Sri Lankan economy. In this article, the author will also discuss the causes, impact, and consequences of the crisis. As this economic

crisis did not occur overnight, this article seeks to explore how web-based mass media has covered Sri Lanka's journey into this crisis over the past few years.

### **Causes of Sri Lanka Economic Crisis:**

1. The external debts of Sri Lanka
2. The Sri Lanka tourism sectors
3. The Sri Lanka agriculture crisis
4. The tax reductions and money creation
5. Tea exports and tourism have been affected the Russian-Ukrainian war

#### **1. The external debts of Sri Lanka:**

Sri Lanka's external debt has doubled from 2010 and 2020. Foreign debt was approximately 42 percentage of its GDP in 2019, however it has gone up to 9 Percentage of its GDP in 2021. Sri Lanka expects to repay its debtors US dollars 4 billion towards the end of 2022, while government reserves amounted to US dollars 2.3 billion as of April 2022.

#### **2. The Sri Lanka tourism sectors:**

The tourism industry in Sri Lanka was negatively affected by the Easter bombings of 2019 and the COVID-19 pandemic that followed. In the event that borders were closed, tourists completely ceased to arrive, resulting in a decrease in tourism-related revenues. Sri Lanka's tourism industry contributes 13 per cent of the country's GDP. Tourists are also a source of foreign exchange. In 2020, Sri Lanka managed to welcome just 173,000 tourists 2018. The number was 2.3 million. You see the gap by 2021, Sri Lanka's tourism revenue was down to USD 2.8 billion.

#### **3. The Sri Lanka agriculture crisis:**

In April 2021 the current government made another blunder. It has been announced that Sri Lanka will only permit organic farming, banning all inorganic fertilizers and agrochemical fertilizers. The government believes that this will be beneficial to health. Many critics rolled their eyes. Many realized that the real issue was insufficient funding, not health. Sri Lanka was saving foreign reserves by banning the import of fertilizers. However, this impacted agriculture production. The drop in tea production due to the fertilizer ban alone resulted in losses of millions of dollars.

#### **4. The tax reductions and money creation:**

In 2019, campaigned for the presidential election. In accordance with current government election promises, they intend to cut taxes if they are re-elected, and ensure that people will pay less taxes. In this case, how will the country make money? Both the voters and the present government never bothered. The result of the election in November 2019, the current government was elected to office with more than 52% of the vote, and a series of significant tax cuts followed. Due to Sri Lanka's current president's policy of large

tax cuts, government revenue and fiscal policies have suffered, resulting in soaring budget deficits. Among these measures were the increased tax-free thresholds, which decreased the number of taxpayers by 33.5%, reducing VAT to 8%, reducing corporate tax from 28% to 24%, eliminating the Pay As You Earn (PAYE) tax and imposing the 2% "nation- building tax" that financed infrastructure development.

## **5. Tea exports and tourism have been affected the Russian-Ukrainian war:**

Because of the ongoing tense situation between Russia and Ukraine due to the Russian-Ukrainian War, Sri Lanka's economic conditions are already sluggish. Due to the Russian invasion of Ukraine in 2022, Sri Lanka has suffered further economic hardship, as Russia is the second biggest market for Sri Lanka's tea exports. Additionally, Sri Lanka's tourism industry is heavily dependent on these two nations, as the majority of visitors arrive from either Russia or Ukraine. As a result, the Ukrainian crisis has put a halt to economic recovery in Sri Lanka, which has been adversely affected by both the tea and tourism sectors.

### **Impacts of Sri Lanka Crisis:**

Due to the rising price of basic commodities, shortages of essential goods, as well as rolling blackouts, the President has been forced to declare a national emergency. In the last several years, Sri Lanka has suffered from historically low government revenues, poorly timed tax cuts, as well as the Covid-19 outbreak, which has adversely affected the country's lucrative tourism industry and foreign remittances. Sri Lanka's government declared the most severe economic crisis the nation has experienced in the past seventy-three years. Food shortages were announced in August 2021. The government, however, denied that there were shortages of food. The country's energy minister admitted that the crisis could result in a financial catastrophe. At the beginning of April 2022, the new governor of the (CBSL) was appointed. The ruling coalition was defeated in parliament when a majority of 41 parliamentarians left the coalition on 5 April. Curfews were also imposed by the government after protests became violent.

1. Sri Lanka's Inflation
2. Fuel and power inefficiency experienced by Sri Lanka's
3. Education system of Sri Lanka
4. Medical sectors of Sri Lanka and its impact
5. Tourism sector and its impact
6. Impact on export sector
7. Impact on entertainment and sports

### **1. Sri Lanka's Inflation:**

As Sri Lanka encounters an unforeseen economic crisis, the rising cost of living burns a hole in Sri Lankans' pockets. In Sri Lanka, the overall rate of inflation for February 2022, inflation was 17.5 per cent. The year on year increase in inflation

for food was 24.7 percent while non-food items saw an 11 per cent rate. The year on year change (Feb 2021 to Feb 2022) for local red chilis increased by 60 percent, local potato's by 74.8 percent and Nadu rice by 64percent.

## **2. Fuel and power inefficiency experienced by Sri Lanka's:**

The economic crisis has led to a decline in electricity, fuel as well as cooking gas consumption, due to a shortage of these resources. A financial minister has instructed all government offices to turn off all streetlights until the end of March 2022 in effort to conserve electricity. The shortage of cooking gas has forced the closure of nearly 1000 bakeries. Recent months have seen long lines forming in front of petrol stations. An increase in the price of crude oil has aggravated the situation further. The authorities throughout the country have imposed daily power cuts in order to conserve energy. To reduce tensions among people waiting in lines and to simplify fuel distribution, the government instructed the military to station soldiers at various gas and fuel filling stations in March 2022.

## **3. Impact on Education system of Sri Lanka:**

Assume the person has no reason to celebrate after finding out that exams have been cancelled. Many Sri Lankan schools announced in March 2022 that they would postpone their term, mid-year examinations for an indefinite period due to paper shortages in the entire country, mainly caused by a shortage of foreign reserves to purchase paper. Due to an insufficient supply of printing paper as well as ink ribbons, term examinations were scheduled to take place whole Island on 28 March 2022, however this date was either completely cancelled or postponed. Almost 4.5 million students in Sri Lanka will be affected by the financial crisis.

## **4. Medical sectors of Sri Lanka and its impact:**

Doctors in Sri Lanka have warned that a huge number of people may die as the country's healthcare system teeters on the brink of collapse due to crippling power cuts and a shortage of essential medications. Due to an insufficient supply of medicines, all scheduled operations at the (PTH) Peradeniya Teaching Hospital have been cancelled. In many other hospitals, routine surgeries have also been suspended and a significant number of laboratory diagnostic tests have been reduced. In addition, there was a shortage of emergency life- saving drugs in other state-run hospitals. Singapore Red Cross society declared the Lanka medical crisis an unexpected humanitarian crisis.

## **5. Tourism sector and its impact:**

Besides the remittances of its workers, Sri Lanka's tourism industry is the third-largest source of foreign exchange for the country. Additionally, this industry is a large employer and a significant contributor to foreign revenue for the government. As a result of the worst financial crisis the country has ever faced, the tourism industry has been badly affected. The

United Kingdom, Canada, and India cautioned their citizens to pay attention to the ongoing economic instability in Lanka. Some countries in Europe and Canada urged their citizens to keep water, food, and fuel on hand in case of long-term disruptions, to ensure that adequate supplies of medicines are on hand because they may not be readily available, and to monitor local media for the most recent updates.

#### **6. Impact on export sector:**

Due to the current economic situation in Sri Lanka, leading textile companies, including Zara, Mango, and H&M, have shifted their attention from Lanka to Asian countries, including India, Bangladesh, Cambodia, and Vietnam, where they have placed their orders. India has experienced a rapid increase in export orders for its textiles and tea after the economic and political conditions in Sri Lanka deteriorated.

#### **7. Impact on entertainment and sports:**

Due to the dollar crisis and the economic crisis in Sri Lanka, SLT PEO TV, Sri Lanka's largest internet protocol television service provider, has temporarily halted and suspended transmission of foreign channels. In addition, the Indian Premier League 2022, was also suspended midway due to inability to pay the host broadcaster, Star Sports.

#### **Conclusions:**

The government of Lanka should take steps for the economic recovery of the whole country once the scarcity of certain basic commodities comes to an end. The government must also cooperate with Tamil political leadership to establish a roadmap for economic growth in the civil war-impacted eastern and northern regions, between areas severely struck by the ongoing crisis. It would be better to increase domestic tax revenues and reduce government spending to restrict borrowing, especially sovereign borrowing from foreign sources. Strict measures must be taken for restructuring the administration of grants and subsidies. India's Aid: It would be entirely inappropriate for India to allow the Chinese to take control over the growing portions of Sri Lankan land. India should offer Sri Lanka financial assistance, policy recommendations and investment from Indian entrepreneurs. Indian companies must build supply chains which connect the Indian as well as Sri Lankan economies with goods and services including the export of tea to Information technology services. India, instead of any other country, must help guide Sri Lanka on the path to achieving its potential to reaping the benefits of a stable neighborhood.

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