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# Sri Lanka's Economic Crisis:
## Structural issues and impacts

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It is evident that the Sri Lankan economic crisis was years in the making and thereby its effects would likely take years to mitigate. While this would place an additional burden on the people, there is also hope that Sri Lanka would prove to be resilient in the face of this crisis.

Sri Lanka is currently experiencing the most severe economic crisis in recorded history since its independence in 1948. Shortages of basic commodities and rising inflation are merely the indicators of difficult times ahead for Sri Lankan citizens. The economic crisis is largely attributed to the economic mismanagement of the present Government of Sri Lanka led by President Gotabaya Rajapaksa. Policies followed by the incumbent government such as tax cuts, money printing, complete shift to organic farming, unsustainable debt obligations, in addition to the effects of the 2019 Easter Attack, the Covid-19 pandemic, and the near depletion of Sri Lanka's foreign reserves due to the dwindling inflow of foreign exchange compounded the destructive impact on the country's economy.

When the crisis reached its peak, the President addressing the nation in March 2022 claimed:

> "I am well aware of the shortages of essential items and increase in prices. I am also aware of issues such as gas shortage, fuel shortage and power cuts. I am also very sensitive to the many sufferings the people have to experience over the past two months. I know that this situation will continue for reasons beyond our control though we make maximum possible efforts with regard to these situations."[1]

The above statement was an underestimation of the extent of the economic hardships to come. The overall degradation in the quality of life experienced in the following weeks saw the people take to the streets, engaging in island wide protests. The inaction of the government has only fuelled the public outrage. Citizens having lost faith in the government are demanding the immediate resignation of the President and the Prime Minister, along with relief from the

[1] Presidential Secretariat (2022) *President Gotabaya Rajapaksa's special address to the nation*. Available at: https://www.presidentsoffice.gov.lk/index.php/2022/03/16/president-gotabaya-rajapaksas-special-address-to-the-nation-3/

economic crisis. Meanwhile peaceful protests are being disrupted by law enforcement officers that use excessive force to control the crowds. Hence, the economic crisis had rapidly devolved into a political crisis, which cannot be resolved without a complete political and economic structural change in Sri Lanka.

Against this background, this paper attempts to understand the depths of the present economic crisis in Sri Lanka. It explores the following: What were the causes of the economic crisis? What impact did it have on the day-to-day lives of Sri Lankans? How did the government, the citizens, and non-state actors react to the present crisis? What is the best way forward for Sri Lanka in these troubled times?

## I
## Background of the Sri Lankan economic crisis

The present Sri Lankan economic crisis was years in the making. Economists had observed the slowdown of Sri Lanka's economic growth since 2012. When the Yahapalanaya government co-led by President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe came into power in 2015, the signs of this were quite evident. The annual GDP growth of Sri Lanka had come down to 5% in 2015 and fell as low as 2.3% in 2019.[2] Likewise, the country's export sector remained stagnant, remaining at US $ 10-12 billion from 2015 to 2019. On the other hand, during the same time period public debt went up by almost 10%, hinting at the debt crisis that Sri Lanka is undergoing at present.

The precarious state of the Sri Lankan economy was noted by the Institute of Policy Studies (IPS) as early as 2014. The risks pointed out by IPS at the time included the danger of receiving foreign aid from a single source, borrowing hot money, shoring up foreign reserves through borrowing, the uncontrolled increase of external non-concessionary borrowings, the state banks borrowing on behalf of the government, the monopolisation of FDIs by the hospitality sector, and covering up budget deficit through capping capital expenditure.[3] However, these warnings were largely unheeded by the political leaders at the time. In fact, these perils further intensified due to the Constitutional crisis in 2018, as political instability affected investor confidence.[4] As a result of all these factors, the country experienced no visible economic growth for a period of four years, and was particularly vulnerable to the economic backlash of the 2019 Easter.

Thereby, the incumbent government that came into power in November 2019 had the unenviable task of restoring the Sri Lankan economy. However, the emergence of the Covid-19

[2] All statistics mentioned are cited from Focus Economics (2022) *Sri Lanka Economy Data*. Available at: https://www.focus-economics.com/countries/sri-lanka

[3] Wijewardena, W.A. (2014) 'IPS State of the Economy 2014: A critical probe shows hidden risks and defects of policies', *Daily FT*, 8 December. Available at: https://www.ft.lk/columns/ips-state-of-the-economy-2014-a-critical-probe-shows-hidden-risks-and-defects-of-policies/4-373511

[4] Chandran N. & Jegarajah, S. (2018) 'Constitutional crisis' could destabilize Sri Lanka, pushing it closer to China', *CNBC*, 30 October. Available at: https://www.cnbc.com/2018/10/30/sri-lanka-crisis-political-economic-finanncial-conseuqences.html

pandemic meant that Sri Lanka's foremost foreign exchange earners – the tourism and export sectors – came to a standstill due to the imposition of island wide lockdowns and supply chain disruptions experienced globally.[5] Nevertheless, the Easter Attack and Covid-19 alone cannot be held responsible for the dire straits of the Sri Lankan economy. The pandemic was a global phenomenon that affected all countries. As independent think tank Verité Research pointed out, in comparison to its South Asian peers, Sri Lanka was the only country that experienced a severe depletion of foreign reserves during 2019 to 2021.[6] Thus, it is evident that while the pandemic and the Easter Attacks may have factored into the current economic crisis, they are not the sole reason for it. The following sections examine the economic policies of the incumbent government and their impact on the Sri Lankan economy.

***Defective economic policies***

Sri Lanka's budget deficit doubled in the span of a single year under President Gotabaya Rajapaksa's administration. As Verité Research observed, between 2019 and 2020, the deficit increased by Rs. 1.074 billion.[7] The deficit was caused due to the decline of government revenue, which in turn was affected by excessive tax cuts implemented by the Rajapaksa administration. Accordingly, value added tax (VAT) was reduced to 8%, corporate income tax was reduced to 24%, and personal income tax was reduced to 18%. Moreover, seven other taxes including nation-building tax, PAYE tax, debt repayment levy, and economic service charge were done away with altogether.[8] These ill-advised tax reliefs were a part of President Rajapaksa's election campaign with no plans to make changes to the tax policy for his term in office, which was severely criticised by economists for the impact they would have on the economy. In direct contrast to the decline in revenue, government spending increased by Rs. 548 billion.

In order to bridge the gap between revenue and expenditures, the Central Bank of Sri Lanka (CBSL) adopted the Modern Monetary Theory (MMT), which claims that printing money alone does not cause higher inflation. This decision by the CBSL was frowned upon by economists as well as the International Monetary Fund (IMF), which in an assessment of the country's situation warned that this could lead to currency instability and shrinking of private credit lines. Nonetheless, CBSL printed Rs. 2.8 billion from December 2019 to October 2021 alone,[9]

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[5] While Sri Lanka was on the road to recovery after the 2019 Easter Attack, the lockdowns and curfews implemented in order to curb the first few waves of the Covid-19 pandemic hindered the progress made. For more details, refer Arunatillake, N. (2020) 'Easter Attacks in 2019 vs. COVID-19 Outbreak of 2020: What Lies Ahead for Sri Lanka?', *Talking Economics*. Available at: https://www.ips.lk/talkingeconomics/2020/04/03/easter-attacks-in-2019-vs-covid-19-outbreak-of-2020-what-lies-ahead-for-sri-lanka/

[6] Verité Research (2022) *Is the Pandemic the Sole Cause for the Depletion in Sri Lanka's Foreign Reserves?* Available at: https://publicfinance.lk/en/topics/is-the-pandemic-the-sole-cause-for-the-depletion-in-sri-lanka-s-foreign-reserves-1646912468

[7] Verité Research (2022) *Why did Sri Lanka's Budget Deficit Increase in 2020?* Available at: https://www.veriteresearch.org/2021/10/27/why-did-sri-lankas-budget-deficit-increase-in-2020/

[8] Mallawarachi, B. (2019) 'Sri Lanka's new government announces tax cuts', *AP News*, 28 November. Available at: https://apnews.com/article/b6b96849ebe74c8dbeac461ff8418c28

[9] Opanayake, V. (2022) 'Printing money: Our way out in 2022 too?', *The Sunday Morning,* 8 January. Available at:

resulting in headline inflation increasing up to 14% in January 2022.[10] Under the current economic conditions, the level of inflation in Sri Lanka is expected to remain at double digits – exceeding the recommended 4-6% by a considerable margin.

Another monetary policy that was criticised by the IMF was the fixed exchange rate adopted by CBSL. Since April 2021, the value of the US dollar was pegged to Rs. 200-203, affecting the prices of basic commodities and leading to dysfunctional foreign exchange (henceforth forex) markets.[11] This policy decision resulted in a significant drop in the inflow of foreign remittances, with informal methods and black market buying and selling of currencies becoming more frequent.[12] Moreover, the dollar shortage within the island impacted the country's import sector, causing a shortage of several essential commodities and goods including fuel, rice, sugar, milk powder, and domestic cooking gas.

***External debt problem***

Another persistent issue that Sri Lanka has been grappling over the past years has been its debt sustainability. In March 2022, one of the major concerns of the Government was the lack of forex and the question of whether the government could repay the debts due this year. By the end of 2021, several rating agencies including Standard and Poor's, Moody's, Fitch had already downgraded Sri Lanka's ratings, citing high risk of debt default in 2022.[13] At the beginning of 2022, Sri Lankan foreign reserves dipped as low as US $ 2.4 billion, while net international reserves had been in the negative since November 2021. Under such circumstances, Sri Lanka's debt obligations for 2022 remained impossibly high at US $ 6.9 billion, with the budget deficit standing at US $ 11.9 billion. Public debt had risen from 94% of the GDP in 2019 to 119% in 2021.[14]

Sri Lanka's debt problem has deep roots, out of which indiscriminate borrowings from foreign sources is just one. This is primarily due to the fact that Sri Lanka had deviated from standard practices when borrowing in the past decade. As Sri Lanka was upgraded to a middle-income country, aid received from international multilateral and bilateral donors such as the World Bank, Asian Development Bank, or the Japan International Cooperation Agency in the form of concessionary loans declined. In order to make up for this, Sri Lanka began to supplement borrowings in the form of commercial loans in 2004. By 2012, commercial loans had come up

https://www.themorning.lk/printing-money-our-way-out-in-2022-too/

[10] International Monetary Fund (2022) 'Sri Lanka: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Sri Lanka', *IMF Staff Country Reports Volume 2022* (09). DOI: https://doi.org/10.5089/9798400206450.002

[11] *Ibid.*

[12] Weeraratne, B. (2021) 'Black, White and Grey Markets: The Dynamics of Foreign Exchange and Remittances in Sri Lanka', *Talking Economics*, 17 December. Available at: https://www.ips.lk/talkingeconomics/2021/12/17/black-white-and-grey-markets-the-dynamics-of-foreign-exchange-and-remittances-in-sri-lanka/

[13] Moramudali, U. (2021) 'Sri Lanka's Foreign Debt Crisis Could Get Critical in 2021', *The Diplomat*, 09 February. Available at: https://thediplomat.com/2021/02/sri-lankas-foreign-debt-crisis-could-get-critical-in-2021/

[14] *Supra* note 10

to over 50% of Sri Lanka's overall borrowings. For example, Sri Lanka's debt to China alone stands at US $ 5 billion at present. These commercial loans came with a considerable risk as they are short-term, with higher interest rates, and offered no moratoriums. However, out of these debt obligations, International Sovereign Bonds (ISBs) are at the forefront, accounting for US $ 1.54 billion out of the total debt repayments due in 2022.

The origin of the debt crisis lies in Sri Lanka's continued reliance on these foreign loans to shore up the economy instead of addressing structural weaknesses. The disproportionate debt to GDP ratio had resulted in a serious balance of payment issue, which had exacerbated due to contraction of trade, low tax revenue, and dwindling foreign direct investments (FDI). IMF in its assessment noted that Sri Lanka's external debt to be unsustainable and needing immediate attention, as: "Due to persistent external debt service burden, international reserves would remain inadequate, despite the authorities' ongoIng efforts to secure 5inanceng from external sources."

***Agricultural mishaps***

Another policy decision that undoubtedly had a negative impact on the Sri Lankan economy was the complete ban of chemical fertilisers in April 2021. The policy was implemented in accordance with President Rajapaksa's National Policy Framework which highlighted the need for environmentally friendly farming by guaranteeing the people's right to safe food.[15] While this may seem to be a step in the right direction, the manner in which the policy was brought into effect – without preliminary testing or preparation – had an adverse impact on both production and local export sector. For example, the production of rice which is a staple in the Sri Lankan diet fell by 20%, causing the prices to surge over 50%. In addition, the production of several key export crops such as tea, rubber, and coconut were also hit by this overnight transition to organic farming. The loss from the tea production sector alone was estimated to be around US $ 425 million.[16] President Rajapaksa's organic pledge came at the cost of Sri Lanka losing its position as one of the global market leaders in tea exports, due to the drop in quality and quantity. This policy decision resulted in the collapse of the agricultural sector, forcing the government to import rice at a time when forex reserves were dangerously low. Moreover, the imposition of price controls resulted in hoarding, worsening the existing food shortages in the market. Therefore, the agricultural policy adopted by the Rajapaksa administration at a time when the country was already struggling with the fallout of the Covid-19 pandemic, proved disastrous for the Sri Lankan economy.

***Declining tourism sector***

Tourism is the third highest forex earner of Sri Lanka, after workers' remittances and apparel sector exports. The tourism sector as a whole (including travel related services) contributed to

[15] National Policy Framework (2019) *Vistas of Prosperity and Splendour*. Available at: http://www.doc.gov.lk/images/pdf/NationalPolicyframeworkEN/FinalDovVer02-English.pdf

[16] Nordhaus, T. & Shah, S. (2022) 'In Sri Lanka, Organic Farming Went Catastrophically Wrong', *Foreign Policy Magazine*, 05 March. Available at: https://foreignpolicy.com/2022/03/05/sri-lanka-organic-farming-crisis/

10.3% of Sri Lanka's total economy and accounted for 5.7% of the country's GDP in 2019.[17] Tourism was one of the hardest hit sectors by the Covid-19 pandemic – the decline in tourist arrivals affecting income generation, the inflow of FDIs, and higher unemployment in the sector. By March 2020 tourist arrivals had fallen as low as 70% in comparison to the previous year. Highly dependent on the forex income earned by the tourism sector, this decline was another blow that was unfavourable to the Sri Lankan economy.

***Repercussion of the Russian-Ukrainian war***

Sri Lanka will be affected on two fronts due to the ongoing conflict between Russia and Ukraine; namely, the drop in tourist arrivals from the European region and supply chain bottlenecks caused by the situation. The immediate concern for the country would be tourist arrivals, as 30% of Sri Lanka's incoming tourists this year were from Russia, Ukraine, Poland, and Belarus.[18] The number is expected to dwindle rapidly as more cancellations are being reported due to the closure of Russian airspace. Likewise, Sri Lanka like many other countries across the globe had lost access to the Russian and Ukrainian markets since February 2022. The overall impact of this is felt in the global rise of crude oil import prices. However, in addition to the rising fuel prices, Sri Lanka had also lost one of its major wheat import sources, of which Russia and Ukraine account for 45%. Exports too are affected, as Russia and Ukraine purchase 18% of the fermented black tea exports from Sri Lanka.[19] Hence, two of Sri Lanka's major revenue earners come to a halt due to the current Russian-Ukrainian war, further contributing to the economic crisis.

As examined above, the origins of the Sri Lankan economic crisis are multi-faceted; including debt mismanagement, impact of the pandemic, and the lack of foresight in policy formulation. At present, the crippling effects of the crisis is felt by all Sri Lankans, who now lead a hand-to-mouth existence, uncertain of their future or the future of the country.

## II
## Impact of the Sri Lankan economic crisis

The immediate consequences of the economic crisis in Sri Lanka is evident by the existing food and fuel shortages, as the import dependent market collapsed when the government was unable to produce forex to purchase goods. Signs of imminent collapse were observed since August 2021, when the government had to declare Emergency regulations pertaining to the distribution of essential food items, offering several food items such as rice and sugar at concessionary rates. By December 2021, rating downgrades and depleting forex meant that the

[17] Rajarathne, R.P.D.M. (2020) 'Improvements and Adjustments Needed to Overcome the Impact of COVID-19 by the Travel and Tourism Services Sector in Sri Lanka', *Proceedings of the International Conference On Business Innovation: Covid 19 Transcending Challenges, Recovery Measures and Resilience*, pp. 101-106. Colombo: NSBM Green University

[18] Ondaatjie, A. (2022) 'Shock Waves From War in Ukraine Threaten to Swamp Sri Lanka', *Bloomberg*, 17 March. Available at: https://www.bloomberg.com/news/articles/2022-03-17/shock-waves-from-the-war-in-ukraine-threaten-to-swamp-sri-lanka

[19] Wijesinghe, A. (2022) 'Russia-Ukraine Conflict: Economic Implications for Sri Lanka', *Talking Economics*, 28 February. Available at: https://www.ips.lk/talkingeconomics/2022/02/28/russia-ukraine-conflict-economic-implications-for-sri-lanka/

imports were severely limited, as foreign banks refused to accept Sri Lankan letters of credit until the country's credibility was restored. The import restrictions in turn triggered the worst energy crisis the country had experienced in over 25 years.[20]

By March 2022, Sri Lankans had to queue outside filling stations to pump fuel for their vehicles and as Ceylon Petroleum Corporation (CPC) became unable to meet the demand. As fuel became scarce in the market, the prices sky-rocketed to unmanageable levels. The fuel crisis had a domino effect, interrupting both day-to-day lives, industrial, and service sectors of the country.[21] The first among many to be hit by the fuel shortage was the state electricity provider Ceylon Electricity Board (CEB) which imposed regular load shedding hours. The forex shortage meant that the CEB was unable to purchase emergency power or fuel from the CPC. Hydropower alone was inadequate to meet the national demand, while thermal power plants could not operate due to the shortage of fuel. These power cuts last anywhere from two to five-hour average on a daily basis, with the longest power cut to date lasting for almost fifteen hours a day.

The fuel shortage and the subsequent power cuts further handicapped the struggling economy of Sri Lanka. For example, the Colombo Stock Exchange (CSE) crashed as it opened on 30 March, as its shares plunged below 7%, prompting an immediate halt in trading twice over the course of the day.[22] As worries over the deepening economic crisis and power cuts grew, the CSE not only limited its trading hours but had to temporarily shut down the stock market, due to the unpredictability of the country's present economic conditions.[23] Likewise, the tourism industry which already saw cancellations from the European region, experienced another setback as several governments (including the UK and Canada) issued warnings to its citizens travelling to Sri Lanka. The island nation was no longer recognised as a holiday destination as the tourism industry struggled to make ends meet. Power interruptions also impacted local businesses. Many small shop owners closed down their shops as frozen goods were destroyed by the long hours without power.

Certain production factories and facilities too closed down as the fuel shortage made machinery inoperable. Public transport was severely impacted, with the number of buses on the street reducing nearly by half. Likewise, container transports involved in export/import industries became limited, further affecting the shortage of essential goods and contributing to

[20] Srinivasan, M. (2022) 'Fuel shortage, power outages aggravate Sri Lanka's economic crisis' *The Hindu*, 03 March. Available at: https://www.thehindu.com/news/international/fuel-shortage-power-outages-aggravate-sri-lankas-economic-crisis/article65186881.ece

[21] Dias, S. (2022) 'SL's economy struggles amid fuel crisis', *The Sunday Times*, 06 March. Available at: https://www.sundaytimes.lk/220306/business-times/sls-economy-struggles-amid-fuel-crisis-474766.html

[22] Reuters, (2022) , 'Colombo bourse halts trading twice as shares plunge over 7% amid economic woes', *Economic Times*, 30 March. Available at: https://economictimes.indiatimes.com/markets/stocks/news/colombo-bourse-halts-trading-twice-as-shares-plunge-over-7-amid-economic-woes/articleshow/90539637.cms

[23] Asian News International, (2022). 'No Trading Next Week In Sri Lanka's Stock Exchange Amid Crisis', *NDYV*, 17 April. Available at: https://www.ndtv.com/world-news/sri-lanka-economic-crisis-no-trading-next-week-in-sri-lankas-stock-exchange-amid-crisis-2893865

their exorbitant price hikes. The corporate sector too faced difficulties operating under these circumstances, especially the IT/BPM industries which are reliant on a steady power supply. The export sector lost international clients as they pulled back due to concerns over inability to provide supplies and meet deadlines. The sector also had difficulties in obtaining freight services as they demanded payment in US dollars as the crisis began to worsen. The country also experienced network issues as local telecommunication and internet service providers couldn't secure adequate fuel to power their signal towers during long power interruptions. The agricultural sector was another to be hit, as the breakdown of the transport sector meant that the farmers were left with limited means to transport their goods to the markets and the harvesting being delayed due to the fuel shortage. Similarly, the banking sector operates under considerable pressure as their clients become unable to repay bank loans while the directives of the CBSL meant that they too were affected by the severe dollar crunch.

Another impact of the current economic crisis is the food shortage caused by the forex issue. As local supply chains get disrupted on top of the import restrictions in place, Sri Lanka experienced a shortage of essential food such as rice and sugar. People queued outside state-owned grocers in order to obtain food items at concessionary rates. The limited supply also drove up the retail price of food. In addition to food, Sri Lanka also experienced a paper shortage. This resulted in school examinations being postponed indefinitely, while several daily newspapers halted print publication and shifted to e-paper format.[24] By April 2022, Sri Lanka's headline inflation reached a record high of 28.9%. Advocata Institute's Bath Curry Indicator (BCI)[25] which track changes in monthly food prices, recorded nearly a 14% increase in food expenses from March to April 2022 alone. Furthermore, the CBSL revealed that Sri Lanka's year-on-year food inflation had reached up to 46.6% while non-food inflation had come up to 22% in April.[26]

Even the health sector of Sri Lanka was not spared by the impact of the current economic crisis. In spite of the guarantees that they would have uninterrupted power, images of how doctors had to perform surgeries in the dark circulated on social media, giving context to the depth of the crisis.[27] By the end of March, several state-run hospitals in Sri Lanka had to halt regular surgeries as the country's forex shortage affected the pharmaceutical supplies – including life-saving drugs, painkillers, anaesthetics, implants, and suture materials. As with food prices, the supply shortage meant that medicine prices went up by 40%, exacerbating the consequences of the crisis. In April, Sri Lanka Medical Council (SLMA) warned the government that if the medicine shortage was not addressed immediately, the casualties caused would likely exceed

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[24] *AFP*, (2022) 'School Tests, Newspapers On Hold As Sri Lanka Begins Running Out Of Paper', 25 March. Available at: https://www.ndtv.com/world-news/school-tests-newspapers-on-hold-as-sri-lanka-begins-running-out-of-paper-2842565

[25] Advocata Institute (2022) *Bath Curry Indicator*. Available at: https://www.bci.advocata.org/

[26] Central Bank of Sri Lanka (2022) *Press Release*. Available at: https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_20220429_inflation_in_april_2022_ccpi_e.pdf

[27] Rizwie, R. & Hollingsworth, J. (2022) 'Surgery by mobile phone light and reusing catheters', *CNN*, 18 April. Available at: https://edition.cnn.com/2022/04/15/asia/sri-lanka-hospital-medicine-intl-hnk-dst/index.html

the combined losses from the civil war, the tsunami, and the Covid-19 outbreak.[28]

As detailed above, the overarching impact of the Sri Lankan economic crisis was far-reaching. Several people lost their lives as they waited in queues to purchase limited fuel and domestic gas supplies. Others lost their livelihoods, with daily wage earners becoming the most vulnerable, as businesses could not operate at normal capacity. Over one million people are expected to fall below the poverty line by the end of this year.[29] Declining goods and services keep on driving up the market prices. Limitations on imports and exports further impedes the production process, while expenditure outstrips production rates, creating even more shortages. Therefore, the current condition of Sri Lanka is described by economists as a vicious cycle that has brought the country's economy to the brink of ruin.

## III
## Responses to the Sri Lankan economic crisis

### *People's protests*

Sri Lankan people have taken to the streets to express their displeasure at the unbearable living conditions which kept getting worse as the year progressed, demanding the resignation of the Rajapaksa government. The protests began in March 2022, and included both spontaneous and non-partisan protests, as well as organised politically-backed protests. The latter included several protests staged by Parliamentary opposition Samagi Jana Balawegaya (SJB) led by Sajith Premadasa and the National People's Power (NPP) led by Anura Kumara Dissanayake.
Conversely, the most effective form of expressing dissent had been the non-partisan people's protests.[30] In a protest culture unfamiliar to Sri Lanka, they began as small pockets in the suburbs of Colombo, following the code of peaceful and silent demonstrations – where protesters held up placards and lit candles during the evening hours and power cuts. However, as the duration of power cuts increased during the month of March, more and more people began to express their opposition to the current administration – which came to a head on 31 March. After a power outage that lasted for over thirteen hours, protesters gathered outside the President's private residence in Mirihana.[31] The initially peaceful protest turned violent as Police and Special Task Force (STF) deployed water cannons and tear gas against the protesters in an attempt to disperse them, while several protestors were arrested.

This incident sparked outrage among the public and drew a massive crowd to Colombo that began as a movement to occupy the Galle Face Green, Colombo in order to carry out demonstrations in front of the Presidential Secretariat on 09 April. The protestors continue to

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[28] Fernandopulle, S. (2022) 'Acute shortage of medicines threatening; SLMA writes to President', *Daily Mirror*, 08 April. Available at: https://www.dailymirror.lk/print/front_page/Acute-shortage-of-medicines-threatening-SLMA-writes-to-President/238-234768

[29] Opanayake, V. (2022) 'Economic crisis: More people pushed below poverty line', *The Sunday Morning*, 07 May. Available at: https://www.themorning.lk/economic-crisis-more-people-pushed-below-poverty-line/

[30] Kuruwita, R. (2022). 'Sri Lanka's Leaderless Protests', *The Diplomat*, 12 April. Available at: https://thediplomat.com/2022/04/sri-lankas-leaderless-protests/

[31] Jayatilleka, D. (2022) 'The Mirihana moment and movement', *The Island*, 02 April. Available at: https://island.lk/the-mirihana-moment-and-movement/

occupy the space at present, and have established a protest village named "Gotagogama" (Gota-Go-Village) which is set up in the model of a small village, providing basic necessities.[32] Moreover, people's protests are taking place in front of Temple Trees (the official residence of the Prime Minister) and the Parliament of Sri Lanka as well. Other significant landmarks such as the Independence Square, Galle Fort, Torrington Square, Viharamahadevi Park, and Lotus Tower have been transformed into regular protest sites.

Since then, protests have spread to most of the cities in Sri Lanka that have established designated protests sites, including several professional bodies such as lawyers, business owners, IT professionals, tea plantation workers, government-sector employees, religious leaders of multiple faiths, etc. joining them in a show of support. Some of the protesters surrounded the residences of several Cabinet Ministers, demanding that they resign as well. People are of the opinion that the Rajapaksa family should declare their assets to the public, while all Ministries and government institutions be audited. The people's protests are distinguished by their creativity; with multiple individuals and organisations using the protest site to express dissent through song, dramatic performances, art installations, citizen forums, and teach outs. The people's protests also utilised social media extensively. Several hashtag campaigns including #GoHomeGota became popular in social media platforms such as Facebook, Twitter, and Instagram, demanding the President to step down and be impeached.

In addition to the protests being carried out locally, Sri Lankan citizens living overseas had organised several protests in support of the people including in the US, England, Australia, New Zealand, Germany, Italy, etc. which drew the attention of the international community to the Sri Lankan economic crisis.

***Government response to the crisis***

The initial reaction of the Sri Lankan Government was to deny that there is an ongoing economic crisis, and thereby refuse to seek aid from the IMF.[33] This denial and delay in seeking aid only aggravated the effects of the crisis until in March, when President Rajapaksa finally admitted that the country is in dire economic straits during his Presidential address. In an attempt to redress the situation and in response to the people's protests, several remedial measures were put into place by the Government.

As a preliminary to approaching the IMF for support, on 8 March, CBSL devalued the Sri Lankan rupee against the US dollar by 15%, allowing the currency to float and adjust to the market value.[34] While this move might have been a step in the right direction to restore market

[32] Jayasinghe, U. & Ghoshal, D. (2022) 'A small tent camp in Sri Lankan city becomes focus of national protests', *Reuters*, 13 April. Available at: https://www.reuters.com/world/asia-pacific/small-tent-camp-sri-lankan-city-becomes-focus-national-protests-2022-04-13/

[33] Bala, S. (2022) 'Sri Lanka's central bank governor says country does not need IMF relief amid inflation concerns', *CNBC*, 24 January. Available at: https://www.cnbc.com/2022/01/24/sri-lankas-central-bank-governor-says-imf-relief-is-not-necessary.html

[34] Jayasinghe, U. (2022) 'Sri Lanka devalues rupee, seen as step towards getting IMF help', *Reuters*, 08 March. Available at: https://www.reuters.com/markets/rates-bonds/sri-lanka-allow-rupee-weaken-230-per-dollar-

stability, the devaluing of the currency came with its own implications. The currency continues to depreciate even at present, driving inflation higher day-by-day, whereas the salaries of the people remain stagnant, adding to their economic woes. The devaluation of the rupee had also failed to attract more foreign worker remittances, and did not prove to be the resolution to the forex crunch either.

A positive development that took place in the same period was the appointment of Dr. Nandalal Weerasinghe as the new CBSL Governor who promised to serve the people and make CBSL an independent institution free of political influence. Under the guidance of the new governor, CBSL tightened its monetary policy, advised banks to enable dollar payments for education and health requirements, requested all foreign remittances be sent via formal channels, and took steps to negotiate debt repayment with China. The President also appointed a group of financial experts as members of the Presidential Advisory Group on Multilateral Engagement and Debt Sustainability, in order to approach the IMF. Meanwhile, talks seeking an IMF bailout were initiated in mid-April, but did not yield visible results as IMF insisted that Sri Lanka has to first address its debt sustainability concerns. On 12 April, Sri Lanka announced that the country would temporarily default the total sum of its external debt amounting to US $ 51 billion, in order to avoid the consequences of hard default, ending the country's flawless record of meeting its debt obligations.[35]

On the other hand, wide-spread people's protest which began with the economic crisis devolved into a political crisis. With the growing dissent expressed by the public, all Ministers of the Cabinet resigned from their posts on 4 April. However, many experts questioned the constitutionality of this move, as according to Article 49 of the Constitution the Cabinet will not stand dissolved as long as the Prime Minister continues to hold office. In the meantime, the President invited all political parties representing the Parliament to accept new ministerial posts and assist in resolving the crisis, which was rejected. Furthermore, the ruling party lost the Parliamentary majority as several Ministers declared that they will leave the government and function independently. This includes Ministers from ruling party Sri Lanka Podujana Peramuna (SLPP), Sri Lanka Freedom Party (SLFP), and Ceylon Workers' Congress (CWC). On 18 April, a new government with a 17-member Cabinet was appointed, to the derision of the protestors, as it not only eradicated female representation but also featured members from the previous Cabinet which people had already rejected. Consequently, the Sri Lankan Parliament functioned in a state of political deadlock during the past month where the President continued to advocate for an all-party government while the opposition insisted on a no-confidence motion.

State suppression also came into play with the Mirihana incident on 31 March. The President declared a State of Emergency in order to curb the people's protests, followed by curfew and a

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[35] Schmidt, H. (2022) 'Debt-Payment Suspension Underlines Disastrous Economic Situation for Sri Lanka', *International Banker*, 21 April. Available at: https://internationalbanker.com/finance/debt-payment-suspension-underlines-disastrous-economic-situation-for-sri-lanka/

social media ban in early-April. State-sponsored violence also became common since mid-April, as indicated by the Rambukkana incident, where the Police shot live rounds at the protestors, injuring several people and killing one individual. Similarly, protesters were harassed and intimidated by law enforcement officers on multiple occasions, with the Police continuing the use of tear gas and water cannons to disperse crowds from protest sites.

***International support***

Sri Lanka received financial assistance from several countries; with India agreeing to US $ 400 million currency swap with Reserve Bank of India, a US $ 1 billion credit line for fuel and pharma imports, a diesel shipment under a US $ 500 million credit line, with the Rajapaksa's seeking another possible US $1 billion loan from New Delhi.[36] China too agreed to a US $ 3.1 billion swap while the government is in the process of seeking another US $ 2.5 billion loan from China. In terms of development agencies, the World Bank has extended US $ 300-600 million over the coming months to purchase medicine and other essential items. In contrast, the IMF report on Sri Lanka presented a mostly negative outlook on the current economic crisis. IMF recommended drastic austerity measures including; increasing taxes, government spending discipline, cost-recovery by loss making state-owned enterprises (which included CEB and CPC), returning to a flexible exchange rate, debt restructuring, removal of import restrictions, and improvements in budget formulation, in order to restore Sri Lankan financial stability.[37]

Moreover, the international community is carefully monitoring the situation in Sri Lanka. The United Nations Human Rights Council (UNHRC), the European Union (EU), along with several Ambassadors had issued statements or Twitter messages, extending their support to people's right to protest peacefully while criticising State suppression.

## IV
## The way forward

In order to resolve the economic crisis in Sri Lanka, financial experts have put forth recommendations, which are also in accordance with the recommendations made by the IMF. For example, the course of action endorsed by the Advocata Institute could be broadly categorised as stabilisation and growth.[38] Stabilisation consists of cutting back on excessive money printing and government borrowing, in order to reduce the budget deficit. Moreover, increasing tax rates would be inevitable in order to boost government revenue, whereas decreasing government expenditure by reducing salaries and pensions is also needed to address the budget deficit. These are several direct methods to restore market stability as explained by economists. Conversely, addressing economic growth factors is more challenging,

[36] Reuters (2022) 'What led to Sri Lanka's economic crisis, and who is helping?', *The Indian Express*, 9 May. Available at: https://indianexpress.com/article/explained/sri-lanka-economic-crisis-explained-7849208/

[37] *Supra* note 10

[38] Rathnasabapathy, R. & Thowfeek, R. (2022) 'Sri Lanka's economy is entering a dangerous tailspin', *Advocata Institute*, 20 April. Available at: https://www.advocata.org/commentary-archives/2022/04/20/sri-lankas-economy-is-entering-a-dangerous-tailspin

requiring the production process to be more efficient, the market to attract more competitors, and innovation of more products to foster the economy. As for the power crisis, experts suggested the need to invest more in renewable energy sources and the possibility of connecting to the Indian grid.[39]

However, experts do acknowledge the process of restoring the economy would prove to be extremely challenging for the Sri Lankan people. They would have to expect inflation to go even higher than the current rate, until the currency rates are stabilised. Likewise, if state-owned enterprises like CEB and CPC were to cut back on their losses, that would further drive up the cost of electricity and fuel. One more drastic possibility is the temporary suspension of the welfare system, which would mean services such as healthcare and education would no longer be free of charge. Additionally, another fact pointed out by the experts is that for the economy to flourish, corruption needs to be at a minimum. They believe that whatever measures implemented would be futile unless corruption is uprooted and transparency is involved in the process. A complete Constitutional reform was suggested, acknowledging the dangers of the Executive Presidency which allowed for many arbitrary economic policies to remain unchecked, and thereby also satisfying the demands made by the protestors for an administration change.

In conclusion, two key observations could be with regards to the current economic crisis.
Firstly, economic recovery would be a slow and arduous process. It is evident that the Sri Lankan economic crisis was years in the making and thereby its effects would likely take years to mitigate. However, as Sri Lanka defaulted in mid-April, the country has no other option but to restructure debt and to follow the severe austerity measures recommended by the IMF. While this would place an additional burden on the people, there is also hope that Sri Lanka would prove to be resilient in the face of this crisis.

Secondly, constructive change could be born out of conflict. Despite the negative outlook on the immediate restoration of the economy, one of the most promising outcomes of this crisis would be complete political and economic reform. People at the ground-level are now engaged and invested in policymaking and spaces such as the citizen forum encourages education and input from people of all income-groups and social status. Yet another valuable lesson learnt by the Sri Lankan citizens during the crisis is that the power of the state rests within the people and not its leaders. They have united against the ruling government disregarding ethnicity and religious beliefs that previously divided them. The crisis had exposed the corrupt political culture of Sri Lanka and people who previously subscribed to party politics have moved away from those ideologies. Moreover, the people are creating a political culture intolerant of corruption while advocating for transparency and accountability, demanding the old to step down and pave the way for the new generation.

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[39] Samarajiva, R. (2022) 'Timescale confusions in solutions for the crisis', *Advocata Institute*, 21 April. Available at: https://www.advocata.org/commentary-archives/2022/04/21/timescale-confusions-in-solutions-for-the-crisis

## About International Peace Research Initiative

The International Peace Research Initiative (IPRI) is part of the Conflict Resolution and Peace Research Programme at the National Institute of Advanced Studies (NIAS).

The IPRI undertakes research on varied issues affecting a peace process and conflict regions every year. In 2020, IPRI undertook a larger study to analyse the response of the federal states to the COVID-19 pandemic in India. Marking the 20 years of the UNSC Resolution 1325, the initiative has started a new study to look at gender roles in securing peace. The IPRI has also completed a study in understanding the global protests movements from Chile to Hong Kong.

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