

Unraveling Sri Lanka's Economic Crisis: A Self-Inflicted Catastrophe

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Abstract: *This paper delves into the intricate dynamics of Sri Lanka's economic crisis, which has unfolded as a self-inflicted catastrophe. By examining the contributing factors, policy decisions, and economic mismanagement, this study provides a comprehensive analysis of the crisis. The abstract highlights the key repercussions and explores potential solutions to address the challenges faced by Sri Lanka.*

Keywords: Catastrophe, Crisis, Economy, Sri Lanka..

I. INTRODUCTION

The ongoing crisis in Sri Lanka, which is the worst in the country's history, is a man-made problem while warning signs visible for a year were ignored, said Professor Mick Moore, a highly acclaimed political economist and professorial fellow at the Institute of Development Studies at the University of Sussex.

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 webbased mass media has covered Sri Lanka's journey into this crisis over the past few years.

Depletion in foreign reserves has led to uncertainty about Sri Lankan government's ability to account for import of essential items and debt servicing. Sri Lankan authorities have acknowledged that they are facing increasing difficulty in settling the import bills due to the dollar crunches, particularly for import of fuel for daily requirements. The government and the Central Bank of Sri Lanka (CBSL) are however, confident that Sri Lanka will not default in debt servicing due to the current economic crisis. The Governor of the CBSL believes that the pressures on the economy will ease soon with a steady inflow of forex. The situation on the ground as well as the analyses of government's policy measures and global geopolitical-economic developments including the fallout of Russia-Ukraine war, nonetheless suggest that a state of uncertainty is hovering over Sri Lankan economy. Due to the foreign reserves crisis, the country is facing severe fuel shortages leading to daily power cuts, shortage of

food, medicines, cement and other essential items. Long queues in front of grocery stores, pharmacies and fuel depots in many parts of Sri Lanka indicate the shortage of essential items. Importers are finding it difficult to get Letter of Credit (LOC) issued from the banks due to lack of foreign currency in the country. As a result, many of the containers are stuck at the Colombo port for several days since payments are not settled.

Due to shortage of fuel, many power plants have to be kept shut, which is resulting in power crisis in the country. Some power plants are resorting to hydro energy using the waters basically used for irrigation purposes. Due to insufficient rains and increased use of reservoirs for the power plants, water shortage is anticipated which, as per experts, will badly affect agricultural production and may lead to food crisis. According to the All-Island Private Pharmacy Owners' Association, a severe drug shortage is looming as the existing back-up stocks of medicines are due to be used up within three months. Reportedly, Sri Lanka has a five-percentage shortage of required medicines.

Another fallout of the depletion of foreign reserves is downgrading of Sri Lanka's sovereign ratings by the international rating agencies. It has impacted the investors' confidence to invest in Sri Lanka as the country has been put in the 'high-risk' category of defaulting the debt servicing.

There have been calls for effective measures by the government to deal with issues arising out of depletion of foreign reserves.

II. REVIEW OF LITERATURE

Moore (2022), suggested that the current economic conditions in Sri Lanka translate into the country's worst economic crisis in recorded history and that this crisis, although exacerbated by falling tourism revenues due to COVID-19 travel restrictions and rising food and fuel prices, was caused almost entirely by unwise policy decisions made by the Rajapaksa administration.

Hillman, (2021), told us that Hambantota port was one of the major project that Mr. Rajapaksa pursued, which is financed by the China. On this port he spent more than \$80000 on a ceremony with dancers and singers to open it prematurely on his birthday. It has been considered as the silk road. From economic point of view, the investment was not at all viable. But from political point of view, this project was a prestigious symbolic for the Rajapaksa family.

As Aryal et al (2022) explain, for both endogenous and exogenous reasons, the situation in the country unravelled to the point of the present catastrophe. Their leaders resisted calling upon IMF help up to the very last moment – a mission of the organisation visiting the country only on the last week of June. Bangladesh

Casaca, 2021 told that most particularly India and Bangladesh came to help the Sri Lanka from this situation at their best.

Wolf, 2022 came to the rescue; however, their help was not sufficient to stop the deepening crisis. China, the country seen as the main patron of Sri Lanka's bold infrastructural investments, and seen in particular as very close to the Rajapaksa clan, abandoned the country, to the surprise of many observers. Beijing failed to provide any financial or political support

Balachandran, 2022, a move certainly closely observed by Chinese client states in the region such as Pakistan. Sri Lanka's new prime minister, Prime Minister Ranil Wickremesinghe, has announced initiatives to request the support of USAID; however, as his office was also occupied by protestors his political prospects appear shaky.

Silva 2022, recently declared that they are the tri-forces commanders and the Inspector General of police have requested the Speaker [Mahinda Yapa Abeywardena] to call an all-party leaders meeting and inform us of the steps they will take to ensure a political resolution to current conflict in the run up to the appointment of a new president

The Hindu, 2022 published that this might be a necessary request for the international community to find a stable interlocutor in the country and for a coherent assistance programme to be made operational. In any circumstance, the international community must find a coordinated approach capable of facing the current challenges – and this approach, while building on the on-going support granted by regional partners such as India and Bangladesh, as well as international organisations such as IMF and key national emergency support organisations such as USAID, must outreach such efforts.

III. METHODOLOGY

The methodology applied is the “Keyword Research Methodology”. Using keyword research is the most efficient method of gathering indexed online content. Thus, this research's goal is to collect keyword-related content from web services using the basics of keyword research methodology. First, Google was used to search for the keyword "Sri Lanka Economy", "Lanka" Economy and Political Crisis Sri Lanka" and all articles from January 1, 2010, to today were filtered. The duplicates and unreliable sources were removed, and only 45 popular news items were included in the study. However, since no winning news has been reported internationally for the past two years, the cue "Sri Lanka Economy" and "Lanka" Economy and Political Crisis Sri Lanka" had only produced negative news. It is also a noteworthy observation when searching for information on web content.

3.1 CAUSES FOR CRISIS

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 reelected, 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% "nationbuilding tax" that financed infrastructure development. Because of the substantial reduction in tax revenue, rating agencies have downgraded the sovereign credit rating, making it harder to take on more debt. The rating agencies expressed concern. Consequently, Sri Lanka's state coffers will soon be empty, and the country may soon run out of funds. Due to this, investors fled Sri Lanka and it became difficult for the country to access international markets.

The External Debt 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 119 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. Even though commentaries blame China for a debt crisis, the (ALI)- Australian Lowy Institute noted that Sri Lanka was not mired in a Chinese debt trap, due to the fact that external debt due to China was only around 10 percentage of total debt in April 2021. The vast majority of Sri Lanka's foreign debt stock is owed to international capital markets, which account for 47 percentage. A further 22 percentage is held by international development banks, followed by Japan having 10 percentage of Sri Lankan foreign debt. The President's office announced in January 2022 that it would request to China to postpone its debt burden during talks with its foreign minister. As of March 2022, China has not responded officially. In 2020, Global credit Ratings agency indicated that Sri Lanka's existing financing sources were insufficient to cover the country's debt service requirements, valued at little over US dollar 4.0 billion in 2021. For Sri Lanka to solve its budgetary problems in repaying its debt, Treasury auctions must succeed, according to Bellwether. As soon as this is accomplished, the foreign exchange problem will be automatically resolved. Consequence of failed auctions of Treasury bills filled with printed currency, the government is sinking further into debt. According to Bellwether, the debt crisis needs to be resolved, Sri Lanka would require a reliable fiscal plan as well as monetary policies, a tax increase to re-pay debt, and a reduction in interest rates as well as the opening of imports that would allow tax revenue to flow back into the government. Increasing interest rates and curtailing domestic credit are both effective ways of generating dollars to pay off foreign debt, however, it is impractical to do so on a continuous basis for several years. Investors may be able to regain confidence if their foreign reserves increase following the repayment of debt, but it will be a painful process that might or not succeed given current ideologies. In September, 2021 the government has declared an economic emergency because of a falling national currency exchange rate, rising inflation because of rising food prices, as well as pandemic restrictions on tourism, which further reduced income. Due to this, Sri Lanka's foreign reserves dropped to US dollar 1.9 billion from March 2022, which is insufficient to pay foreign-debt

obligations of US dollar 4 billion and an ISB-International Sovereign Bond payment of US dollar 1 billion for the year 2022.

The Sri Lankan 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. In addition, the country was forced to import rice due to a 20 per cent drop in rice production in the first six months alone. Tea farmers described the situation in the industry as critical, claiming that organic farming is ten times more costly and yields half as much as conventional farming.

The Sri Lankan Tourism Sector

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 in 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. A World Bank report from April 2021 stated that, despite the negative impact of the COVID-19 pandemic on Sri Lanka's economy and the lives of its people, the economy will recover in 2021, though challenges remain. Positive signs of recovery are already evident. Proper taxation has been encouraged in order to build self-reliance and avoid high dependency on foreign debt in the future. The current social protection initiatives intended to assist those who are unemployed due to the debt crisis have been deemed successful. In addition to a properly structured taxation system, the Sri Lankan economy would require, according to economists, an export-driven growth strategy in order to recover from the current debt crisis, and it was hoped that the country would achieve a full financial recovery.

Tea exports and tourism have been affected by 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.

3.2 IMPACTS OF THE SRI LANKAN 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.

Power and fuel insufficiencies experienced by Sri Lanka

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 an 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. A total of four individuals were killed due to fatigue as well as violence during this time. A daily seven-hour power outage was experienced during March 2022, which increased to ten hours by the end of the month and to fifteen hours at the beginning of April. Because of a shortage of paper and the escalating price of paper, daily newspapers ceased printing and began publishing e-papers instead. Hydroelectricity generation in Sri Lanka has also been adversely affected.

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 Impact of Sri Lanka's Education System

Assume the person has no reason to celebrate after finding out that exams have been cancelled. The exams, which are part of the continuous assessment system for students in the country, have been indefinitely postponed. 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. Unfortunately, ongoing power outages have severely impacted online learning and teaching. Besides the pandemic, the power crisis has had a detrimental effect on students physically and psychologically.

Sri Lanka's Medical Sector 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 lifesaving drugs in other state-run hospitals. It was stated by the (MCSL)-Medical Council of Sri Lanka that there are likely to be a large number of deaths which will surpass the combined death tolls from COVID-19, the 2004 tsunami as well as the Civil War if supplies are not replenished in a short period of time. Singapore Red Cross society declared the Lanka medical crisis an unexpected humanitarian crisis. As a result, hospitals were running short of endotracheal tubes to ventilate newborns, infants, as well as children. Doctors requested that foreign Lankan communities donate neonatal ETTs of various sizes. All hospitals in Lanka no longer have access to imported medical equipment or essential drugs, according to the (SLMA)-Sri Lanka Medical Association. The hospitals were pressed to the point that they sterilized and re-used endotracheal tubes to provide oxygen to newborns' lungs. Due to the shortage of new medical equipment, doctors have been compelled to reuse old and already used equipment to treat patients. The light from mobile phones has also been reported to have been used by doctors to perform medical procedures. Because of rolling power cuts, rural doctors have also been compelled to stitch injuries in the darkness. There are also reports that there are short supplies of emergency medications for the treatment of heart attacks.

'Mrs World' returns her crown after Sri Lanka pageant controversy Caroline Jurie resigns after on-stage fracas in which she pulled the crown off the head of Mrs Sri Lanka pageant's winner. 22 Apr 2021 The reigning "Mrs World", Caroline Jurie, has returned her crown of her own accord weeks after an on-stage fracas in which she pulled the crown off the head of the winner of the Mrs Sri Lanka beauty pageant, organisers said. "Her voluntary resignation decision was made solely by Caroline herself," Mrs World Inc said in a news release on social media on Wednesday.

The 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. After Russia and India, the UK is Lanka's third-largest contributor of inbound tourists. Sri Lanka's tourism industry contributes approximately 5 per cent of the country's GDP. The major markets are India, UK, and China. As a result of the economic crisis, the tourism sector was severely affected.

Impacts on the 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. As a result, India's export market has greatly increased. As export demand has diverted from Lanka to India due to the economic and political crisis in the island nation, the textile capital of Tirupur, Tamil Nadu and the tea gardens in Assam and southern India are seeing an increase in orders from overseas. The main exports from Sri Lanka are garments and tea. Sri Lanka exports USD 5.42 billion worth of garments each year to the global market. Because of the ongoing crisis, global brands have relocated some of their orders from Sri Lanka to India. Sri Lanka's export sector has been severely impacted.

The impact of the economic crisis 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. In addition to the plummeting dollar reserves, many sports associations in Sri Lanka have been unable to send their teams to international sporting events, especially since upcoming multi-sporting events such as the Asian Games and Commonwealth Games are just around the corner. The economic crisis is expected to have an increasingly detrimental impact on the entertainment industry, along with other media services.

Sri Lanka food, cooking gas prices up after controls removed amid money printing October 11, 2021, 11 Prices of several basic foods in Sri Lanka cement, and cooking gas saw a sharp increase after the government aborted its failed price controls, while price increases in fuel, which is also a source of taxes expected. Admitting the government's price controls created shortages, Sri Lanka on Friday abandoned price controls amid a weakening of the rupee against the dollar.

Basic Foods Sri Lanka has an oligopoly of rice millers who have been keeping domestic rice prices higher than old prices helped by import controls imposed by the government after printing money.

Energy Bubble Despite rising Butane and Propane prices, the state price control authority held prices creating shortages and forcing private owned Laugfs has run billions of rupees of losses.

Price Stability Economists say removing price controls was correct by but an overall policy of price stability was needed. The central bank has since lifted price controls on bonds, but markets are still dysfunctions.

Forex markets are under multiple controls. Sri Lanka has un-anchored monetary policy leading to high inflation and external instability.

IV. MEASURES TAKEN

Sri Lankan government perceives that the policy of preceding governments over the years to import more than the revenue earned has led to the current foreign-exchange reserves crisis. Loans taken from multilateral institutions have also been believed to be responsible for leading the country to a crisis situation. In addition to this, the

COVID-19 pandemic has intensified the crisis, and therefore, one of the major policy priorities for the government is to reduce the import expenditure. Several other 'homegrown measures' have also been initiated to reduce capital outflow and increase inflow to strengthen the foreign reserves. The government has approached bilateral partners for loan, credit and currency swap facility to deal with the issue of settling import and debt. Special attention is also being given to boost investors' confidence while dealing with the crisis situation by not defaulting on debt-servicing.

V. IMPORT RESTRICTIONS

The Sri Lankan government has banned import of luxury vehicles, chemical fertilisers and food items like turmeric to prevent foreign currency outflows. Import ban on Motor Vehicles has been in effect since March 2020. The government of Sri Lanka has restricted the import of chemical fertilisers and agrochemicals (insecticides and herbicides) in May 2021. Even though the government justifies the ban to promote organic farming in the country, prevention of outflow of foreign currency was also a factor behind the chemical fertiliser import ban policy. Before the ban, Sri Lanka used to spend around US\$ 400 million annually on fertiliser imports and more than US\$ 7 million for turmeric imports. US\$ 1.5 billion was spent in 2018 on vehicle imports. The government's justification for the import ban is that it would prevent outflow of foreign currency and encourage domestic production which could lead to growth of exports.

Restrictions on forward contracts of foreign exchange: In view of the need to avoid excess volatility in the foreign exchange market, the CBSL has directed the licensed commercial banks to refrain from entering into forward contracts of foreign exchange for a period of three months.

VI. ENHANCING REMITTANCE INFLOW

To enhance remittance inflows to the country, the government has introduced several policy initiatives like: proposal to diversify the foreign employment market which is now mostly dependent on the Middle Eastern countries; establishing a contributory pension scheme for migrant employees; and to pay Sri Lankan Rs 2 per dollar above the normal exchange rate for the foreign exchange remittances converted at licensed banks. A Special Deposit Account scheme has also been introduced to attract more inward remittances to the country.

Assistance from Bilateral Partners: Government of Sri Lanka is approaching bilateral partners for assistance to deal with the current economic crisis in the form of loans and currency swap facilities. Bangladesh has extended US\$ 200 million currency swap facility. China extended US\$ 1.5 billion swap facility. Sri Lanka has also received US\$ 700 million from China Development Bank. India has so far committed financial assistance to the tune of US\$ 2.4 billion which includes: (a) US\$ 400 million under the SAARC currency swap arrangement; (b) deferral of A.C.U. settlement of US\$ 515.2 million by two months; (c) US\$ 500 million for importing fuel from India; and (d) US\$ 1 billion for importing food, essential items, and medicine. In addition to this, Indian Oil Corporation has supplied 40,000 Metric Tonnes of fuel on 60 days credit. As part of the financial assistance package, India has also agreed to positively contribute to enhance Sri Lanka's energy security by signing an MoU to jointly develop the Trincomalee oil tank farms; and by providing all kinds of assistance to tap Indian tourists for strengthening Sri Lanka's tourism sector as well as enhancing Indian investments in Sri Lanka. Pakistan and Qatar have also agreed to provide assistance. Pakistan has agreed to extend US\$ 200 million credit lines to import cement, basmati rice and medicines manufactured in Pakistan. Details of the same are yet to be finalised between the two countries. Reportedly, the CBSL has commenced discussions with the Qatar Central Bank to obtain a swap of over US\$ 1 billion.

VII. BOOSTING INVESTORS' CONFIDENCE

To boost investors' confidence, the government has made provisions for Special Deposit Accounts. The government is determined not to default in debt servicing commitment despite the shortages of foreign exchange. Despite repeated calls from the opposition parties, the government has decided not to request the lender to restructure the debt payment.

No to International Monetary Fund (IMF) Bailout: Sri Lanka is not keen to approach IMF for bailout, as the IMF assistance comes with strings attached, which would impose additional burden on the people who are already facing challenges due to the pandemic and the ongoing economic crisis, according to the government. The incumbent government is also of the view that the IMF programmes implemented in Sri Lanka from time to time worsened the country's economic problems. Though the government is confident that it would be able to deal with the situation without IMF bailout, however, statements from the ruling party leaders suggest that the government might get technical advice from the IMF.

VIII. CONCLUSION

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 neighbourhood. The Lankan authorities must ensure that the current crisis will not be used to intensify smuggling activities as well as trafficking or stir up emotions in the country. Crisis as an Opportunity: Both Sri Lanka and India cannot have strained relations. As a much larger country, the responsibility is on India. It must be very patient and engage Sri Lanka even further periodically and closely. Further, it is important to enhance people centric development activities while carefully staying away from any interference in Lanka's internal affairs. As a consequence of the economic crisis, Sri Lanka is keen to put in place major financial and regulatory reform measures. These reforms will reduce the chances of a future crisis and will mitigate the impact of whatever crisis will occur and is deserving of people's full support. Sri Lanka's government should take the abovementioned steps for the economic recovery of the whole country. It hopes the foreign exchange situation will improve early with the realization of the planned inflows from bilateral partners, and debtless creating foreign exchange inflows in the future. It is anticipated foreign exchange revenues from the tourism industry and remittances will be improved in the near future. It is expected that the people of Lanka will feel economic relief in the foreseeable future. The Sri Lankan government is hopeful that the foreign exchange situation will improve soon with the materialisation of envisaged inflows from the bilateral partners, as well as non-debt creating foreign currency inflows in the coming days. It is expected that the foreign exchange earnings from the tourism sector and remittances will improve soon. Despite the optimism of the government and the CBSL, it is unlikely that people of Sri Lanka are going to feel economic relief in the near future.

Sri Lanka's debt burden is huge. Its debt service obligation for the period July 2021 to 2026 is about US\$ 29 billion. Uncertainty still exists about the improvement of the tourism and export sector. The escalation of war between Russia and Ukraine will have repercussions for Sri Lanka, as both Ukraine and Russia are important markets for Sri Lankan tourism. Of the total tourists who visited Sri Lanka this year till 11 February, Russians accounted for 15.8 per cent and Ukrainians accounted for 8.7 per cent. Lack of tourists from these countries due to the war will have implications for the tourism sector. Also, the Russia-Ukraine war has already caused global oil price rise, which would create further problems for Sri Lanka to import fuel for its daily requirements. The escalating situation between Ukraine and Russia may also impact the export as they are important markets for Sri Lankan tea. Before the pandemic, Sri Lanka was dependent on a large number of Chinese tourists. About 1,67,863 Chinese tourists visited Sri Lanka in 2019. It is not clear yet as to when China would lift the ban on people's movement in and out of the country.

EU is the second largest market for Sri Lanka's export sector. EU's Generalised Scheme of Preferences (GSP+) facilitates duty-free entry of the Sri Lankan products to EU. Unsatisfied with Sri Lanka's human rights records,

EU Parliament has threatened to review the GSP+ scheme extended to Sri Lanka through a resolution in June 2021. In the resolution, Sri Lankan government was asked to take proactive measures to improve its human rights records including abolition of the Prevention of Terrorism Act (PTA). While the government has tabled a bill in the Parliament to amend the PTA, not many proactive measures are visible on the concerns mentioned in the EU resolution. UN High Commissioner for Human Rights Michele Bachelet took a critical stand in her report presented during the 49th Session of the United Nations Human Rights Council (UNHCR) beginning on 4 March 2022 for not implementing its pledge to establish war crimes accountability mechanisms. The report also asked the government to take “further steps to address the fundamental problems with the PTA and undertake deeper legal, institutional and security sector reforms that were critically needed to put an end to impunity and prevent any reoccurrence of past violations”. In its response Sri Lanka alleged that the report had an “intolerably intrusive character and there was a clear element of discrimination within it”. However, during the interactive dialogues following the presentation of the report, many of the participant countries asked the Sri Lankan government to “fully consider the numerous and consecutive recommendations made by various United Nations mechanisms and organizations”. Sri Lanka’s attitude towards those recommendations in coming days will determine the flow of assistance from the Western countries particularly from the EU to deal with the economic crisis. Withdrawal of GSP+ facility to Sri Lanka by the EU will be a big obstacle in the growth of export sector. At the domestic level, the government has to face the wrath of common people, opposition parties and even disappointment of some of the coalition partners because of its handling of the economic crisis, pandemic, overall governance and foreign affairs.

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