



**PRESENT FINANCIAL TURMOIL IN SRI LANKA AND ITS FALL OUT: A
REVIEW**

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Abstract:

The study has reviewed how Sri Lanka's current economic crisis is rooted in its long dalliance with IMF-imposed conditionality and has been aggravated by the Rajapaksa Govt.'s quixotic organic farming adventure. Without a course correction, more misery is in store for the county. Applying the technique for screening, the study has focused and emphasized on the continental studies, objectives, variables, results, Publishers and year of publications of the sample cited papers to summaries the research trends. Thus, the applied study can spur academicians, researchers and scholars to gauge the impact and implication of the economic crisis of Sri Lanka upon the disruption of the lives of mass people. Given the manufacture of narrative in our times, a dominant explanation for the crisis in the mainstream media centre around the so-called "Debt-trap" that China is accused of having set for Sri Lanka.

Keywords: Sri Lanka, Economic Crisis, Financial crisis, Covid-19, Devaluation and e-journals.

Paper type: Literature Review

Introduction

Sri Lanka is an island nation off the south coast of India. The geography of Sri Lanka covers the northern coastal plains and hills and mountains in the middle. The unprecedented economic crisis in Sri Lanka has been largely dependent on the past few months, from the mismanaged government. Finance and improper tax cuts over time in addition to the impact of the covid epidemic. Declining forex reserves, high debt, inflation, inflation and recession have forced people to struggle with basic necessities. Government of Sri Lanka in 2021 officially declared the worst economic crisis in 73 years. In August 2021, a food emergency was declared. But the government. denied food shortages. Sri Lanka's Energy Minister Udaya GammanPila has acknowledged that the crisis could lead to a financial disaster. The country's economic crisis is an ongoing crisis for the island nation that began in 2019. It is the worst economic crisis since independence in 1948. This has resulted in unprecedented levels of inflation, an almost complete depletion of foreign exchange reserves, shortages of medicines and rising prices of basic commodities. The crisis is said to have started as a result of a number of factors exacerbating the situation, such as tax cuts, fundraising, national

policies to switch to organic or bio-farming, events like the 2019 Easter bombings and the impact of the covid19 pandemic. The ensuing economic hardship led to protests in Sri Lanka in 2022.

How Financial crisis-worsened

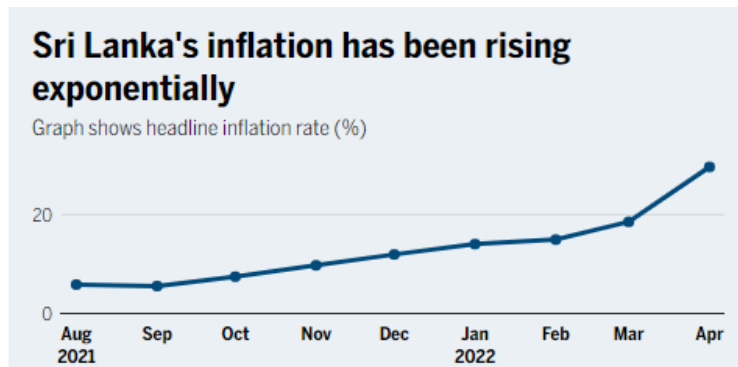
The country's worst crisis since its independence from Britain in 1948 was partly caused by the lack of foreign exchange. This means that the country cannot afford to pay for basic food and fuel imports. As a result, the country's inability to pay for its necessities led to a serious shortage, pushing prices to record highs. Critics say the root of the crisis lies in an economy that has been mismanaged by successive governments. This created and perpetuated twin deficits and budget deficits in addition to the current account deficit. Government of countries. Has temporarily suspended repayment of its external debt while waiting for negotiations with the IMF, which is scheduled to begin later this month. This move violates many of its payment obligations. This affects all issued series of bonds issued in the global market, foreign currency loan agreements with commercial banks and institutional lenders, and the amount paid by the Republic and state-owned enterprises. Given the

state of foreign exchange reserves and the worst economic crisis, this decision is a last resort. The IMF has assessed its debt situation, unsustainable estimates indicate that the country has nearly \$ 35 billion in outstanding debt and about \$ 7 billion will be paid soon. Road imports have been introduced due to the lack of foreign currency reserves, and there is a shortage of essentials such as fuel, milk powder and social unrest. Inflation has risen by double digits. The war in Ukraine disrupted the supply chain and exacerbated the problem of the county's tourism-dependent economy, already tense by the Covid 19 pandemic. The tragic organic food experiments have severely affected the country's agricultural sector and led to food shortages. Rating agencies downgraded Sri Lanka, effectively shutting it out of the international capital markets, as the county's lucrative tourism industry and remittances of foreign workers were damaged by the pandemic. Second, Sri Lanka's debt management program, which relied on access to these markets and detailed foreign exchange reserves, fell by nearly 70% in two years. The country's foreign exchange reserves are below \$ 50 million. This forced the

government. Suspend \$ 7 billion in external debt payments to be paid this year.

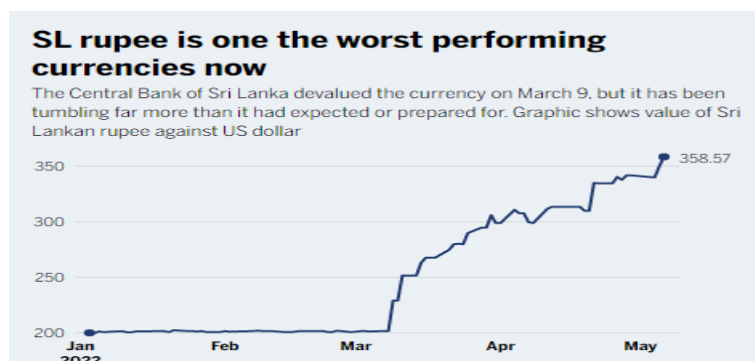
How crisis disrupted life

For months, people in the country have had to wait in long queue to buy essential item because as forex crisis led to acute shortage in imported food, medicine and fuel. Job losses have become a common phenomenon in almost every household. Besides, fall in earning has led to rise in poverty rates. According to world bank data, the share of poor based on a daily income of \$3.20 was estimated to have grown to 11.7% in 2020 or by more than half a million people from 9.2% a year before. The latest economic crash compounded by the Russia-Ukraine conflict that has led to skip hike in old prices, served another gut punch and making seener of despiration and panick more and more common among the people. Fuel shortages have led to long lines at gas station and rolling power cuts across much at the country. A serious shortage of diesel has shut multiple Thermal power plants causing rolling power cuts across the nation. The sudden rise in prices of commodities has pushed up inflation to record levels. In April 2022, the Country's inflation figure stood at nearly 30% way above its central bank target range of 4% over the medium term.



Meanwhile, currency depreciated against the US dollar by 33% during the year upto April 1, 2022. Considering exchange rate fluctuations, the Sri Lankan rupee fell

31.6% against the Indian rupee, the euro fell 31.5%, the British pound fell 31.1% and the Japanese yen fell 28.7% during this period.



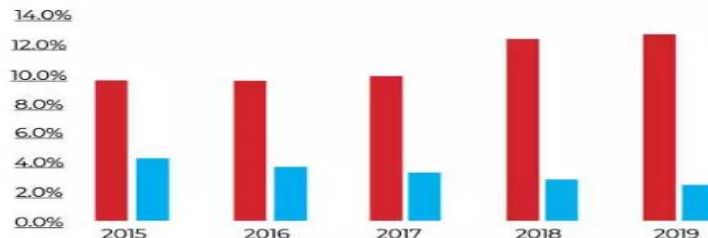
Should politics be blamed?

As Sri Lanka struggles with the crippling economic crisis, it is difficult to overstate the Rajapaksa family's influence in all of this. At the time, Gotabaya was defense secretary and was well-known for his role in the 2009 elections to

end the civil war against the Tamil rebels. In early 2022, President Rajapaksa called on China to reschedule payments for about \$ 3.5Bn of debt owed to Beijing, which in late 2021 also provided Sri Lanka with a \$ 1.5Bn yuan exchange rate.

Sri Lanka's Outstanding Debt to china and India

Chinese Debt Stock as a % of Total Foreign Debt
India's Debt Stock as a % of Total Foreign Debt



How did it happen in trouble and what happened next?

Sri Lanka's economic crisis has turned to deadly violence, killing eight people and injuring more than 200 people so far. India, Sri Lanka's northern neighbor, has extended billions of dollars in loans to help the country pay for essential services. China, which has recently significantly changed infrastructure Sri Lankan projects in the comments of analysts - is an attempt to increase their influence. The whole of Asia intervened a little publicly but said it supported the Island's efforts the nation to restructure its debt. To get out of this difficult economic situation, the first step would be to have a stable Government. in the middle. Cabinet was dissolved automatically after the resignation of Mahinda Rajapaksa. Currently, the country does not have a Prime Minister. Some business groups are learning from the world's politicians to find a solution quickly, as violence escalates. Houses and cars were burned in some parts of the country. The President may try to form a unity government, but it may be difficult to convince opposition members to join. The Constitution gives the President broad powers as Commander-in-Chief of the Armed Forces, head of the Cabinet and the power to appoint a chief justice and a chief of police and others. Critical discussions between Sri Lanka and the IMF regarding the recovery plan and plans to restructure its private debt, could be chaotic.

Objectives of the study

The overall objective is to do the future research. It could be to add to the knowledge in the area, to address the existing gap in the knowledge, to devise and test a solution to an existing problem.

Research objectives are the outcomes that aim to achieve by conducting research. Its purpose is to drive the research project, including data collection, analysis and conclusions. Research objective also helps narrow in on the focus of key variables, guiding through the research proceeds. To determine which ones require the most resources classify the variables. It also reviews the trace of improvement on its underpinning factors, controversies, ongoing debates and its association with the implementation. Finding the sample papers with synthesization of the thematically purpose of the study. Furthermore, additional analysis of articles, variables and applied statistical methods were also attempted. The study follows a logical structure with a brief focused plan to evaluate the structural framework of the study.

Methodology

This study has attempted to focus the particular synthesized broader issues, detecting road map with a logical structure to evaluate the fundamental implementation in a structural lucidness. Accordingly the review has been carried out in the following steps:

Searching for literature: The current review has been limited to papers published in journals like “ Human Rights Council holds separate interactive dialogue on the human rights situation in Eritrea and in Sri Lanka”. United Nations human right office of the High Commissioner 4th March, 2022 “Sri Lankan PM to visit India to formalize Economic Relief package”, The Hindu, 15th Feb, 2022 “Annual Report 2020”, Central Bank of Sri Lanka, 30th April, 2021. However, in these Journals,

Newspapers and Reports specifically focus on the crisis and disruption of lives.

Practical Screening: We assumed the downloaded papers satisfied all requisite characteristics for treating them as “Certified Knowledge” having wider reliability, validity and acceptability of their findings in tune with the topic. Thereafter, a rigorous screening, concerning the area of the study, type of data, objectives, variables, method and results reduced the no of 35 papers which were retained for the current review.

Data Extraction: The papers were reviewed to trace the improvement, if any, its underpinning factors and its implementation.

Synthesis: Findings of the sample papers were synthesized for the study. Furthermore, additional analysis of various kinds of applied variables and statistical methods were also attempted.

Conclusions

At last but not the least, we hope that the country will survive from this economic disaster vary shortly and improve its stable economic condition as well as standard of living of the people through effective structural reforms with sound financial institutional developments or through the devaluation of currency on the advice of IMF. Side by side the developed countries who invested fund to the county may be advised to waive off loan to some extent or providing liberal credit terms so as to overcome such tragic condition of the county. The neighboring countries like India and European Country may come forward to support the country through both social and Financial assistant to tackle the situation.

Recommendations:

1. World Food Program (WFP) may work in Sri Lanka to bring life saving assistance in emergency basis and to support sustainable and resultant livelihood to achieve a world with zero hunger. WFP is on the frontlines of multiple, simultaneous emergencies to determine which ones require the most recourses.
2. If, Suitable and effective Economic policy is adopted by the Govt. of Sri Lanka immediately to revive the crisis in order to achieve sustainable development and restructuring the Monetary Policy of the country, then the present scenario may be changed.
3. With a domestic market of 20 Million Consumers along with increase in per capital income, the country may to some extent

improve its current situation and ensure its long term growth.

4. Creation of more jobs for the people may be possible with the investment and trade resulting from the Singapore FTA.
5. Constructive role may be played applied in promoting international and regional initiative ranging from the environment and climate change to maritime security and migration.

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