

“

THE MOST DIFFICULT YEAR FOR SRI LANKA'S ECONOMY SINCE INDEPENDENCE WAS IN 2022. THE EASTER SUNDAY ATTACKS IN 2019, THE COVID-19 OUTBREAK AND ITS PROLONGED IMPACT ON MANY SECTORS IN THE WAKE OF IT IN 2020, THE SOCIOECONOMIC AND POLITICAL CRISIS IN 2022 AMID DISASTROUS BALANCE OF PAYMENTS (BOP) IMPERATIVES

”

A SURGE INTO THE ECONOMIC CRISIS AND

THE WAY FORWARD

MS. SASHINI GAYANIKA

HEAD OF DEPARTMENT OF ECONOMICS AND DECISION SCIENCES,
FACULTY OF BUSINESS, NSBM GREEN UNIVERSITY

Ms. Sashini Gayanika, Head of Department of Economics and Decision Sciences, Faculty of Business, NSBM Green University graduated with a First Class honors in Business Administration

(Business Economics – special) degree from the faculty of Management Studies and Commerce of University of Sri Jayewardenepura. She completed her Master's degree in economics from the University of Colombo.

She has collective experience of over a decade as an academic and a researcher.

What is your overview of the current state of the Sri Lankan Economy?

Although Sri Lanka has experienced several Balance of Payment crisis situations in the past, at this moment the country is experiencing a unique but

severe “twin-deficit” problem; a liquidity crisis and a solvency crisis which has led Sri Lanka to announce an external debt service suspension and work on debt restructuring. Our current account has been in deficit since 1960 other than 1965 and 1977 with small surpluses. The budget deficit on the other hand recorded a historically high with a tax cut in 2019 which has wiped out most of the government revenue in 2020 however, financed by printing money. Thus, we are now experiencing the worst economic crisis in the post-independence economy.

As far as you think what are the main factors contributing to the current crisis and the resultant hardships?

The most difficult year for Sri Lanka's economy since independence was in 2022. The Easter Sunday attacks in 2019, the COVID-19 outbreak and its prolonged impact on many sectors in the wake of it in 2020, the socioeconomic and political crisis in 2022 amid disastrous balance of payments (BOP) imperatives, along with unprecedented policy tradeoffs, have all had a negative impact on economic activities and caused unfathomable hardships for people and businesses. Beyond all these catastrophic situations as World Bank pointed out it is mainly due to many years of fiscal indiscipline and risky commercial borrowings which has led Sri Lanka and its people to go through this unprecedented economic crisis. As a result, we had to announce an external debt service suspension in April 2022.

Many people lost their livelihoods and suffered severely





“AT THIS JUNCTURE IT IS A MUST TO SAFEGUARD THE POOR AND THE MOST VULNERABLE PARTIES IN THE ECONOMY. WITH THE SKY-ROCKETING INFLATION THESE ENTITIES HAD THE MOST DISASTROUS EXPERIENCE AS OUR POVERTY LEVEL SHARPLY INCREASED SINCE 2021. THE GOVERNMENT SHOULD SPEND ON SOCIAL ASSISTANCE TO THESE PEOPLE IMMEDIATELY GIVEN PRIORITY”

from the shortage of food, fuel, and important medicine. All of this didn't happen overnight. The economy was already showing signs of weakness even before the COVID-19 pandemic with rapid growth in debt to unsustainable levels. Keeping aside the fiscal imbalances, the monetary policy of the country also was not tight enough to handle the external imbalances. Overall, the economy was not conducive to attracting Foreign

Direct Investments. However, we continued to service debt and facilitate imports without the inflow of foreign currencies which resulted in credit ratings downgrading and limiting our access to international financial markets. We were taking so long to address these issues thus, the crisis deepened affecting many key sectors in the economy.

According to your point of view, who are

the key stakeholders who should come forward to play a major part in this rebuilding stage?

At this juncture it is a must to safeguard the poor and the most vulnerable parties in the economy. With the sky-rocketing inflation these entities had the most disastrous experience as our poverty level sharply increased since 2021. The government should spend on social assistance to these people immediately given priority. As a medium-term solution, we should carefully implement policies to ensure that fiscal sustainability is achieved. As it is evident that we had a loose monetary policy and continued to monetarize the fiscal deficits; the government and the Central Bank must implement required policy measures to prevent the crisis worsening further. Mainly we should not forget the untapped exports potential we have. As claimed by the World Bank, Sri Lanka could create additional 142, 500 jobs if export potential is tapped into. Thus, we should make exports a policy priority. In these paths there are many private and public entities that should come forward and play their role in these critical decisions. It is necessary that we address the root causes of this crisis and take this crisis as an opportunity to build a resilient economy.

As you said social protection system is much needed, how should we prioritize this ?

With the crisis one of the main concerns is the high inflation rate, especially with the food and energy. There are many people struggling to afford nutritious



“

THE MOST DIFFICULT YEAR FOR SRI LANKA'S ECONOMY SINCE INDEPENDENCE WAS IN 2022. THE EASTER SUNDAY ATTACKS IN 2019, THE COVID-19 OUTBREAK AND ITS PROLONGED IMPACT ON MANY SECTORS IN THE WAKE OF IT IN 2020, THE SOCIOECONOMIC AND POLITICAL CRISIS IN 2022 AMID DISASTROUS BALANCE OF PAYMENTS (BOP) IMPERATIVES

”

foods and access to essential medicine on a daily basis. It is vital that a proper social assistance match with the inflation rate to ensure they fulfil the basic needs and protected against future shocks. Many women and children are being neglected and at risk of protection issues at homes and outside. Not only physically but also this crisis has created many social issues as it has reported many mental health related



issues among children and youth amidst the crisis. Given this context most of these poor families have come up with other coping strategies such as cutting down meal sizes and lending. The impact of such activities would create more serious issues mainly on their spending capacities and on child nutrition. This is where

the priority should be given with a less politicized social assistance policy framework which can allocate needed resources to these vulnerable families immediately. It is challenging as we are lacking up-to-date data about these poor households who require assistance and also providing them with financial

“ IT IS IMPORTANT TO FIRST IDENTIFY THE REAL GENESES OF THE CRISIS BEFORE DESIGNING A SUITABLE POLICY PACKAGE IN THE JOURNEY OF RECOVERY. SRI LANKA SHOULD MANAGE ITS CURRENT ACCOUNT RECEIPTS MAINLY WITH THE EXPORT EARNINGS, TOURIST EARNINGS, REMITTANCES ETC. AND AT THE FISCAL FRONT DEMAND MANAGEMENT IS NECESSARY TO ELIMINATE DEMAND PRESSURE ON EXTERNAL BALANCES. TIGHT FISCAL AND MONETARY POLICY IS A MUST TO PREVENT INFLATIONARY PRESSURE FROM WORSENING. HOWEVER, THE SUSTAINABLE RECOVERY WILL DEPEND ON EXPORT EXPANSION AND EFFICIENT IMPORT SUBSTITUTION THROUGH DOMESTIC PRODUCTION. A COLLECTIVE AND COORDINATED EFFORTS OF MANY STAKEHOLDERS ARE NEEDED TO ENSURE A SPEEDY AND SUSTAINABLE RECOVERY ”

support will again create a burden in government fiscal front. Therefore, this is an important area where our country should carefully look at and implement with much transparency, learning from other countries who have undergone similar crisis in their recent past.

What are the crucial adjustments to be implemented to direct the economy into a sustainable development path?

It is important to first identify the real geneses of the crisis before designing a suitable policy package in the journey of recovery. Sri Lanka should manage its current account receipts mainly with the export earnings, tourist earnings, remittances etc. and at the fiscal front demand management is necessary to eliminate demand pressure on external balances. Tight fiscal and monetary policy is a must to prevent inflationary pressure from worsening. However, the sustainable recovery will depend on export expansion and efficient import substitution through domestic production. A collective and coordinated efforts of many stakeholders are needed to



ensure a speedy and sustainable recovery. I believe that we should not consider this situation as a temporary liquidity shock which can be resolved by external financial support but to take it as an opportunity to implement

much needed yet difficult structural reforms to emerge as a resilient economy.

By **Tharani Sooriyaarachchi**
& **Kasun Dissanayake**