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Sri Lanka

FINDING A WAY OUT OF THE ECONOMIC CRISIS IN SRI LANKA

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Background

Due to market or government failures or because of both these reasons, many countries of the world occasionally face serious economic downturns. In the 1930's the great Depression and 2008 economic crisis are two examples for such failures. Economic mismanagement by successive governments over the past decades, negative consequences of intermittent disasters like COVID 19, and the failure to take timely actions to manage macro-economic issues have pushed the country into present economic precipice.

COVID-19 has had a significant impact on the Sri Lankan economy. Like many other countries, Sri Lanka faced disruptions in various sectors, such as tourism, manufacturing, exports, etc. The government implemented measures to control the spread of the virus, that had both short-term and long-term effects to the economy and society. However, steps were also taken to support businesses and stimulate recovery.

Economic Crisis : Its Impact and the Current Situation

Economic crisis can have pervasive effects such as,

- Inflation
- Loss of employment
- Increase of poverty affecting a large part of the population
- Migration of young professionals for better opportunities in developed countries

Sri Lanka's economic landscape has shown a blurred picture since independence in 1948. What has been achieved at the onset of independence has not been sustained and improved by successive governments. Government expenditure has been twice as much as its revenue in recent times forcing government to borrow externally and internally to fill the budget deficits. This situation has led to a staggering amount of foreign debt of Rs. 12 trillion and local debt of Rs. 15 trillion in 2022 (CBSL Report 2022).



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The economy contracted by 7.8 percent in 2022 and 7.9 percent in the first half of 2023. (The World Bank SLDU 2023). On 12th April 2022, Sri Lanka government temporarily suspended the repayment of debts to some foreign creditors and sought IMF assistance to navigate the economic crisis. IMF's main role is to assist member countries to manage the country's balance of payment issues. However, IMF intervention in economic crisis ridden countries in Europe, South America and other regions has shown a bleak picture as these countries have been struggling for years for recovery. It may be due to the restrictive mandate and sticking to neoliberal ideology of the IMF. The impact of the declining role of the government in the economy also contributed to the economic crisis in Sri Lanka.

Even though this ideology worked in the past in economic crises in developed countries, this will not work in developing countries like ours as the socio-political and economic environment is different. In the case of the United State of America, the renowned British economist, John Maynard Keynes' contribution with a new economic theory had helped to recover from the Great Depression in the 1930s and become the number one economy of the world. This theory advocates government intervention to increase the money supply to stimulate economic activities in the country. Although these theories have worked in developed countries, their practical validity is doubtful in developing countries. For example, increase in money circulation by government of Sri Lanka in 2020-2021 with more printed money supply in line with Modern Monetary Theory² (MMT) ended up in hyper-inflation. It did not work according to the Keynesian theory and encourage the firms to invest more, increase employment and labor productivity. Further, it seems that increase in direct and indirect taxes in line with IMF prescription has led to a further contraction of the economy creating heavy burden on the middle and lower class and the business community. Accordingly, there is enough evidence to show that what is good for developed countries will not be working in developing countries like Sri Lanka.

Proposed Action to Overcome the Present Situation

In this milieu, there is a challenge for all of our scientists including social scientists in our country to team up and find a practical solution to this thorny issue. The problem is multi-faceted in nature and therefore a multi-disciplinary team effort is required in this endeavor. Some social scientists have expressed their valuable insights individually in different fora. What is now required is to make a collective effort by a team of social scientists for developing policy guidelines for the government.

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