

SPECIAL REPORT



Sri Lanka's Economic Armageddon

Sooraj Kashyap, *Risk Analyst*
Prashant Rastogi *Risk Analyst*

CONTENT

Introduction	.....	3
Unions & Organisations Protesting The Govt Measures	.....	8
Existing External Debt Share Of Sri Lanka	.....	8
Government's Response To The Crisis	.....	9
Assistance From Countries & International Organisations	.....	10
Assessment	.....	12
Conclusion	.....	13



1. INTRODUCTION

Sri Lanka, an Island nation in South Asia, is undergoing an economic crisis since 2020. Since Mar 2022, multiple protests are being carried out in the country against the government’s mismanagement of the economy. Responding to the violent protests carried out on 31 Mar residence of President Gotabaya Rajapaksa, Colombo, he declared a nationwide State of Emergency on 01 Apr to 06 Apr. measures like curfews and social media blackouts were also imposed until . the voices demanding the resignation of President Rajapaksa have grown in number.

BACKGROUND

In 2019, when President Rajapaksa came to power after succeeding Ranil Wickremesinghe who was in power from 2015. Throughout Wickremesinghe’s tenure, the inflation rate remained between 2.5% and 3.8%, only peaking in 2017 at 6.5% and the debt to GDP ratio stood between 78% and 87%. Political infighting between Wickremesinghe and President Sirisena hindered the prospects of developing a coherent policy to confront the domestic economic crisis. Additionally, the Easter bombings in April 2019 in Colombo reflected the inability of Wickremesinghe led government to keep the country secure from terror mishaps. Taking advantage of the impending grievances of the people against the then incumbent regime and formulating election rhetoric based on assurances of political, security and economic stability, President Rajapaksa of the Sri Lanka Podujana Peramuna (SLPP), in the Presidential elections in 2019, defeated his rival Sajith Premadasa of the United National Party (UNP).

In 2020, the GDP growth rate fell to -2.4% with the Government debt increasing to 101% and 119% in the following year. Based on the underlying economic situation of the country, in 2021, the declaration of the worst economic crisis in the last 73 years of Sri Lanka’s existence was made by the finance minister. This led to record high inflation and unprecedented shortage of necessities infuriating the grievances of the people. As a result, mass protests by both the opposition political parties and the civil activists have been in force since Mar 2022 moving Sri Lanka from an economic to political crisis.

DEFINING THE CRISIS- WHAT LED TO IT?

PERSONALIZATION OF POLITICS	After assuming power in 2019, President Gotabaya Rajapaksa subsequently appointed his brothers, former President, Mahinda Rajapaksa as Prime Minister, Basil Rajapaksa as Finance Minister, and Namal Rajapaksa as Sports Minister of Sri Lanka. In total, the Rajapaksa family held 9 ministerial positions which included 7 cabinet berths in the government. They tightened their grip on the Sri Lankan political discourse and excluded dissenting voices to an extent wherein consensual politics was superseded by power grab.
------------------------------------	---



<p>COVID 19 and Tourism Industry</p>	<p>The Coronavirus pandemic severely curtailed the prospects of booming the pre-existing tourism industry of Sri Lanka. The tourism industry contributes 12% to the GDP of Sri Lanka and is the 5th largest source of foreign revenue in the country. Having been already affected by the terror attacks of 2019, the restrictions related to lockdowns and shutting of borders plunged the tourism industry from 1.9 million travellers in 2019 to 570,000 in 2020. Although in July 2021, Sri Lanka opened its borders for the fully vaccinated travellers and the following month removed the mandatory on-arrival PCR tests, it could not resurrect the tourism industry to the previous levels. As recorded in December 2021, Colombo only received 194,495 tourists despite the Sri Lankan airlines offering schemes like ‘Buy One, Get One Ticket Free’. According to the World Bank estimate, Covid-19 has pushed approximately 500,000 people into poverty and 11.7% likely increase than before.</p>
<p>TAX CUTS</p>	<p>COVID-19 already created financial hardships for the economy as along with the tourism industry, the exports of rubber and tea declined due to low demand. However, even before the pandemic occurred, the Rajapaksa government in Nov 2019 announced tax-cuts in keeping with the election pledges. According to Bandula Gunawardena, a senior Minister, the Cabinet approved a tax cut in Value Added Tax to 8% from 15%, removed withholding an interest, a debit tax and halved income tax on construction companies. Furthermore 2% nation building tax on domestic goods and services was also removed with telecommunication tax reduced by 25%. Additionally, the government started to print more money and ignored International Monetary Fund’s advice to stop the printing in large amounts. This channelized into a twin deficit dilemma with the country’s expenditure exceeding its national income with the production of tradable goods remaining inadequate.</p>
<p>WAYWARD POLICIES</p>	<p>In Apr 2021, President Rajapaksa announced that the government will only allow organic farming and completely banned inorganic and agro-chemical based fertilizers. It was justified as a move to reduce pressure on forex reserves. Although the plan was abandoned in Nov 2021. The loss to the economy in this period further increased to USD 425 million. In terms of rice production, Sri Lanka witnessed a significant 20% drop and was forced to import rice at a cost of USD 450 million. Tea cultivation was also badly hit, and the output of pepper, vegetables and others was reduced by 30%.</p>
<p>RUSSIA-UKRAINE WAR</p>	<p>As both Russia and Ukraine are markets for Sri Lanka’s for tea and tourism, sanctions on Moscow and the disruption of supply chains created a hurdle for an economy trying to resurrect. With the conflict prolonging, Colombo is also hit by soaring costs related to oil, cereals, and minerals import.</p>



TIMELINE OF PROTESTS:

31 Mar

- More than 2000 people had assembled and protested outside the residence of President Rajapaksa.
- The parliamentary police unit, a Special Task Force, the Armed Forces, Air Force, and Navy personnel were deployed to quell the protests.
- The protestors torched buses, tyres, and broke glassess.
- A total of 31 people were injured and 45 people in the protest were arrested by the Sri Lankan police.

01 Apr

- The Colombo police had imposed a one-day curfew following the protests.
- The regions in Colombo going under curfew were the Colombo Central Division, Colombo South Division, Nugegoda Division, Mount Lavinia Division, and Kelanya Division.

01 Apr

- President Rajapaksa had issued a Gazette Extraordinary declaring Emergency regulation from 01 Apr.
- Under this proclamation the President could make executive orders which would override any law, regulation, or provincial statute.
- The declaration would also allow the President to enforce curfews and widen the scope of powers of the law enforcement authorities.

02 Apr

- The Sri Lankan government enforced a 36-hour nationwide curfew from 02 Apr at 1800 hrs (Local time) till 04 Apr at 0600 hrs (Local time).
- Armed security personnel at fuel stations and other establishments so that protests or chaos may be addressed quickly.
- A social media blackout was imposed initially following the curfew but it was lifted on 03 Apr.

03 Apr

- On 03 Apr, the Sri Lankan police arrested 664 protestors in the Western Province of Sri Lanka
- This group of people were supporters of the opposition coalition and anti-government protestors.



05 Apr	<ul style="list-style-type: none">• Several protestors against the government mobilised outside the Presidential Secretariat and Tangalle 'Carlton' residence of PM Rajapaksa.• Protests were held outside several state ministers and former ministers residences.• Protestors had also converged near the Anuradhapura District of Sri Lanka Podujana Peramuna, the Mattala Airport
06 Apr	<ul style="list-style-type: none">• The Sri Lankan President Rajapaksa decided to revoke the proclamation of the Emergency Law.• The decision was taken following the resignation of 42 Members of Parliament who were part of the ruling Sri Lanka Podujana Peremuna-led coalition.• The Emergency Law would be at risk of not getting approved at the Parliament, which would trigger a no-trust motion.
06 Apr	<ul style="list-style-type: none">• The medical emergency due to the extreme shortage of medicines Sri Lankan doctors staged a street demonstration outside the National Hospital of Sri Lanka in Colombo.
06 Apr	<ul style="list-style-type: none">• Several demonstrations had taken place against the economic crisis in the country on 06 Apr.• Protests were held outside the US diplomatic mission in Colombo, the Independence Square, the Liberty Plaza, Temple Trees, and the Moratuwa University in Colombo.
08 Apr	<ul style="list-style-type: none">• The health workers from the public, private, and semi-private sector held a nationwide strike.• Only emergency hospital services were operational
08 Apr	<ul style="list-style-type: none">• Anti-government protests took place well into the night as students, professionals, and senior citizens gathered across Colombo and suburban Colombo to protest against the government.• Protests were held outside the Faculty of Medicine, at the University of Colombo, Lipton Circus, the Independence Square, Kollupitiya's Liberty Junction.
08 Apr to present	<ul style="list-style-type: none">• A twoday demonstration had been planned at Galle Face Green in Colombo from 09 Apr to 10 Apr.• The mobilisation of several thousand people started from 0900 hrs SLST on 09 Apr.• The Galle Face Green has been closed citing the reason as development purposes.



GALLE FACE FRONT PROTEST

On 09 Apr, at 0900 hrs SLST, several hundred protestors started mobilising towards Galle Face Green Front, the region where all government offices are situated. The protestors comprising of IT professionals, young unemployed people, and small business owners.

Later on at between 1100 hrs and 1200 hrs SLST, the protestors started moving towards the Presidential Secretariat, to demonstrate against the Rajapaksa government. The number of people mobilising grew as the day proceeded.

Several thousand people gathered outside the Presidential Secretariat and blocked the Galle road. The protestors were staging a peaceful protest with flags and banners calling out the government's poor management.

The protest quickly turned into a sit-in as the heavy rainfall in Colombo from 09 Apr to 10 Apr did not deter the protestors. Massive traffic congestion was reported around the Galle Face Front.

On 11 Apr, protestors had begun to set up camps outside the Presidential Secretariat in Galle Face. The social media mobilised several thousand people as "Gota-Go-Gama" started trending. The camp has also been named the same.

On 13 Apr, the protest has turned into "Occupy Galle Face". The volunteers have arranged for food, medicine, and sanitation facilities.



2. UNIONS & ORGANISATIONS PROTESTING THE GOVT MEASURES

- **Health sector:**
 - Allied Health Sciences Students Union
 - Health workers of Colombo National Hospital
 - Family Health Services Officers
 - Government Family Health Services Officers' Association

- **Political parties & organisations:**
 - Tamil Progressive Alliance
 - Samagi Jana Balawegaya
 - Janatha Vimukhti Peramuna

- **Tourism**
 - Chefs' Guild Of Sri Lanka

3. EXISTING EXTERNAL DEBT SHARE OF SRI LANKA



Ongoing Situation

In Feb 2022, IMF had announced that Sri Lanka's current economic debt was unsustainable. Inflation was recorded at 17.5% by the finance minister and by 07 Mar. As the stocks fell to a 4-month low and share price index lost by 4%, the government revealed the inflation rate as 17.5%. By 07 Mar, the devaluation of currency was also announced. Due to the lack of foreign reserves, the government was unable to pay for vital imports which led to dire shortages of daily life essentials like medicines and food. Power cuts lasting for longer than 13 hours were declared because there was no oil to power thermal generators. Against the soaring prices and economic hardship being faced by the people, multiple protests have occurred across the country demanding President Rajapaksa's resignation. The government had to order army to secure fuel stations and has declared a health emergency.

As the demonstrations against the government turned violent on 31 Mar, President Rajapaksa announced a State of Emergency on 01 Apr which lasted till 06 Apr 2022. Additional measures like social media blackouts and curfew were also implemented but for a short duration of time. However, the crisis has deepened since the cabinet



resigned en masse from their positions with Prime Minister Mahinda Rajapaksa also stepping down. Responding to the crisis, President Rajapaksa has requested to create an all-party coalition to confront to crisis, but the opposition political parties have not paid heed to his proposal. In return, they are adamant on asking for his resignation, but President Rajapaksa remains unwilling to resign despite losing the majority in the 225-member parliament to govern. This has turned the economic crisis into a political one as well with protestors storming many of the institutions as the recent incident at the Health Ministry suggests.

4. GOVERNMENT'S RESPONSE TO THE CRISIS

The Government has taken various measures to mitigate the economic turmoil increased interest rates, devalued the local currency, and placed curbs on non-essential imports. But as the forex reserves remain meagre at USD 1.9 billion and USD 7 billion in debt payments due in 2022, these measures could fall short of resurrecting the economy. Abandoning its reluctance, President Rajapaksa has finally sought help from IMF and has pledged to fulfil Colombo's obligations. In short of having a finance minister after the recently appointed FM Ali Sabry resigned, the government has now appointed an advisory panel to help resolve the growing debt crisis. On the other hand, the Sri Lankan government has also asked for economic and aid assistance from countries like China, India, and others.

Fuel:

- On 08 Apr, the Ceylon Petroleum Corporation (CPC) has announced that it has taken steps to import 265,000 metric tonnes of fuel for the month of Apr.
- The CPC has announced that a special programme has been launched to supply fuel to factories and industries. Factory owners and industrialists must register with the CPC to avail fuel.



Food:

- On 09 Apr, Sri Lanka confirmed that it has made arrangements to import 300,000 metric tonnes of rice. The rice will be sold through Sathosa outlets (government-subsidised shops)
- On 09 Apr, Sri Lankan government had announced that a bag of food essentials will be sold at Rs. 1,550 instead of Rs. 3,085. The bag of food essentials contains 5 kg of Samba rice, 5 kg of Nadu rice, 1 kg of Brown sugar, 100g of tea leaves, and 400g of milk powder.



Medicines:

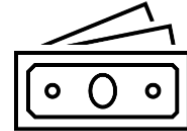
- On 05 Apr, Sri Lanka's Government Medical Officer's Association (GMOA) had announced a health emergency over the shortage of essential medicines, the Ministry of Health has announced that through Indian Credit Line essential medicines will be imported.



- On 06 Apr, the Bank of Ceylon and People's Bank decided to open Letters of Credit with the Ministry of Health at USD 7 million each.

Debt Restructuring:

- On 12 Apr, the Secretary of the Ministry of Finance had announced that Sri Lanka will suspend normal debt servicing of all affecting debts, which amounts to USD 51 billion.
- The Ministry will undergo orderly and consensual restructuring of those obligations consistent with the economic adjustment programme supported by the International Monetary Fund (IMF)
- The foreign reserves of USD 1.9 billion will be used to finance essential items such as medicines, food, fuel, and textiles. The ministry has given the option of repaying the debts in Sri Lankan rupees or asked the countries owning Sri Lankan debt to liquidate Sri Lankan holdings in those countries.



5. ASSISTANCE FROM COUNTRIES & INTERNATIONAL ORGANISATIONS

New Delhi has been supplying Colombo with much required assistance in the form of credit as well as monetary and non-monetary aid. Sri Lanka has not received any relief as the latest official record released in March highlights that inflation has elevated to 18.7% with food prices soaring a record high of 30.1%.

INDIA:

Fuel:

- As of 05 Apr, India has approved to send 240,000 metric tonnes of diesel and petrol to Sri Lanka through the line of credit extended by the External Affairs Ministry and approved by the State Bank of India.
- On 06 Apr, India sent one consignment each of 36,000 metric tonnes petrol and 40,000 metric tonnes of diesel.
- On 01 Apr, Sri Lankan subsidiary of Indian Oil Corporation known as LIOC supplied 6,000 metric tonnes of fuel to the Ceylon Electricity Board.



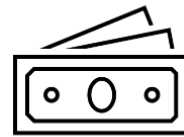
Food:

On 01 Apr, India sent the first consignment of food to Sri Lanka in the form of 40,000 tonnes of rice through the secure credit line from New Delhi.

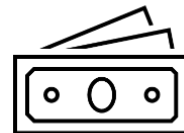


**Credit:**

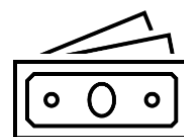
On 17 Mar, India extended USD 1 billion through a Short-Term Concessional Loan facility to the Sri Lankan government through the State Bank of India. An amount of USD 500 million has been extended specifically for the purchase of oil.

**BANGLADESH:****Credit:**

- On 30 Aug, 2021, Bangladesh Bank had extended a USD 100 million tranche to Sri Lanka, the final tranche of the USD 200 million currency swap deal agreed in May 2021.
- In Dec 2021, the Bangladesh government extended the credit facility by three-months from the final day of repayment, at the request of the Sri Lankan government
- On 29 Mar, Bangladesh Foreign Minister confirmed the work for another US dollar-denominated currency swap of USD 250 million, following the BIMSTEC Summit in Colombo.

**CHINA:****Credit:**

- On 18 Mar, a facility agreement between Sri Lanka Finance Ministry and the China Development Bank of USD 500 million at a six-month LIBOR rate of 1.24%, with a grace period of three years.
- On 10 Apr, Sri Lankan ambassador to China has confirmed that Sri Lanka is seeking a USD 1 billion loan from China as well as a USD 1.5 billion line of credit to purchase goods such as textiles and other essential items

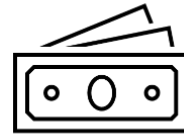




AUSTRALIA

Credit:

- On 07 Apr, Australia had announced that it is extending a USD 2.5 million aid through World Food Programme and Food and Agriculture Organisation to ensure food security for children, strengthen the productivity of smallholder farmers and improve livelihoods in rural areas.



6. ASSESSMENT

Migration	Risk factor: HIGH
<ul style="list-style-type: none"> The crisis in Sri Lanka will lead to an exodus of skilled and semi-skilled labour following the deteriorating economic situation as inflation has turned into “galloping inflation” and the lack of essential services. Illegal immigration to India, Maldives, and other South Asian and Middle eastern countries will create a diplomatic and security crisis, between the Sri Lankan government and the South Asian countries leading to an issue on procuring lines of credit and aid from these countries. 	
Fall of the government	Risk factor: HIGH
<ul style="list-style-type: none"> The opposition parties like the Samagi Jana Balawegaya (SJB) has increased the pressure on the government as they have signed a no-confidence motion and an impeachment motion against the President on 12 Apr. The protestors at the Galle Face and the other parts of the country have been asking for the resignation of the President and the PM, which they have resisted so far, the protestors may continue to occupy Galle Face Front till PM Rajapaksa resigns from office. The opposition parties may unite to form an interim government to manage the economic situation as well as have meaningful negotiations over the IMF economic package. 	
Mass exodus of businesses from Sri Lanka	Risk factor: HIGH
<ul style="list-style-type: none"> The recent decision by the government to stop financing debt and work on restructuring debt instead is the beginning of possible austerity measures in line with the IMF economic assistance deal. 	



<p>This will also lead to the rolling back of subsidies and incentives to businesses on key services like electricity, fuel, and power. Therefore, forcing organisations to suspend operations in the country.</p> <ul style="list-style-type: none"> • There is a possibility of the government imposing an asset freeze on foreign companies operating in Sri Lanka to stop them from leaving the country and losing out on vital foreign currency in the form of taxes. 	
IMF loan assistance deal to fail	Risk factor: MEDIUM
<ul style="list-style-type: none"> • The Rajapaksa government is in a conundrum as his socialistic ideology and the need to keep financing subsidies to the people especially for essential services, in order to stay in power, will come at crosshairs with the IMF during the negotiations. • There are high chances that Rajapaksa may turn down the IMF loan deal if he finds the austerity measures suggested by the organisation against his political stance and popularity. 	
Increase dependence on India & China	Risk factor: MEDIUM
<ul style="list-style-type: none"> • The Rajapaksa government may leverage the geopolitical interests of India and China in Sri Lanka to position himself as a popular leader again and use monetary and non-monetary assistance from the countries to manage the economy temporarily, at the expense of the country's autonomous policymaking and even sovereignty. 	

7. CONCLUSION


The crisis in Sri Lanka will have long-term repercussions on the country's institutions as well as its future. It is imperative for the government and the people to push for reforms in the economy which will have a long spell of economic stagnation, but will shape the country's future. Sri Lanka has to overhaul its policy planning and focus on reducing debt and at the same time boost spending in vital sectors instead of using the resources for subsidies and incentives to the marginalised people.




ABOUT THE AUTHOR(S)

Sooraj Kashyap is a Risk Analyst responsible for the region of South Asia focusing on risk and threat assessments. He looks into Regional and Geopolitical analysis. He works extensively to provide tactical and strategic analysis of the geopolitical happenings to the clients in the field of Oil & Energy Sector, Professional Services, Insurance, E-Commerce, Aviation, and Banking. He holds a Masters' degree in International Studies from Symbiosis International University, Pune, and a degree in Political Science from the University of Calcutta.


Prashant Rastogi is a Risk Analyst responsible for the region of Middle-east and North Africa (MENA). He has worked extensively on the analysis on Geopolitics, Business Development, and Communication Strategies. He is also a Doctoral Candidate at OP Jindal Global University. His research areas are Afghanistan-Pakistan studies, Rebel Governance, Threats from Terrorism and Foreign Policy.




WORLD
RISK &
GOVERNANCE



www.worisgo.com



risk.services@worisgo.com




1800-572-8600

Prepared at the Risk Assessment and Analysis Centre, Bangalore

@COPYRIGHT-WoRisGo

Terms of Use - The business continuity, compliance and security risk advisory contained above is based on analysis of information in public domain and our expertise in the domains. For certain verifications, we have also depended on due diligence with officials wherever necessary or feasible. The analysis and information are provided on as-is basis with no liability. Various organizations may arrive at different outcomes, business continuity plans and other decisions based off on these inputs. Our analysis is just one of the several data points towards enabling such decisions. This analysis should be consumed in the context of your organization's risk appetite, business practices, governance policies and bearing other situational and relevant factors in mind.



**Your GRC Partner:
our assurance during
uncertainties**