

Dear All

Sri Lanka has been in a challenged situation for some time now and things are getting bleaker for the island nation. I have travelled to Sri Lanka many times and I have a lot of friends there. It is sad to see a proud nation virtually on its knees. Here are my learnings on the situation, some man made, some done in by the pandemic.

1. The economic crisis in Sri Lanka has been on the card for some time now, maybe more than a decade.
2. The Sri Lanka population is about 22 million and its GDP is about \$83 billion, earlier growing at about 6 % , now growing between 3 and 4 %. Sri Lanka exports are about \$ 1.1 billion , essentially made of garments and apparel which accounts for 52 % and Tea which accounts for 17 %. However Sri Lanka imports are about \$4 billion and hence imports is consistently ahead of exports.
3. Sri Lanka is short of foreign exchange. Its foreign reserves have dropped by 70 % and the country does not have money to pay for fuel, food and medicines right now.
4. In economic terms Sri Lanka has a twin deficit – national expenditure is higher than national income and next its production of tradable goods and services is not big enough.
5. In the last elections, deep tax cuts were promised and implemented, these hurt the economy by about \$1.4 billion and the economy did not grow.
6. Covid hit Sri Lanka badly as tourism was impacted. Post that the ongoing stress of bomb threats etc. hasn't helped. Covid also hit Sri Lanka as remittances from abroad, a key lifeline did not happen.
7. Sri Lanka also miscalculated and put in ego infrastructure – the tower in Colombo, the port and the meeting venue and airport in Hambantota. All this was pure white elephant.
8. Sri Lanka needs to pay back about \$51 billion, of which a minimum \$ 4 billion needs to be paid back in 2022.
9. The global international markets have downgraded Sri Lanka , thus making it difficult for Sri Lanka to raise money.
10. Prices are up 45 % and inflation is closer to 50 % right now. The government is printing money to pay salaries, this will further fuel inflation. Sri Lanka fiscal deficit is 13 % which is very high.
11. India is trying to help because India cannot have two failed states as neighbors – Afghanistan and Sri Lanka.
12. All the creditors will ask for stringent terms and Sri Lanka will struggle to meet its obligations without a guarantee from the IMF.

Feedback welcome

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