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### **Theme:**

- On 31st August 2021, Sri Lanka declared a state of economic emergency.

### **The present situation in Sri Lanka:**

- People are queuing up at stores to buy basic staple foods.
- Prices of essential food items have risen. Inflation has increased to 6% in August 2021.
- The government has warned citizens to use fuel judiciously otherwise, it may have to limit the sale of fuel per person. This indicates that the country may face an energy crisis in the coming days.
- There is a severe shortage of foreign exchange reserves.
- Due to the severe shortage of foreign exchange reserves, the hospitals are struggling to buy essential drugs and equipment to treat patients.
- The country's currency value depreciated.

### **Reasons for the present economic crisis in Sri Lanka:**

- Sri Lanka is heavily dependent on tourism. 10% of the country's GDP (Gross Domestic Product) comes with tourism. With tourism, the country fills foreign exchange reserves and uses them to import goods. But due to the Covid-19 pandemic, the tourism industry was hit very badly and that impacted Sri Lanka too. Moreover, as the number of covid cases and deaths is rising in Sri Lanka, tourism was even more negatively affected. That resulted in a shortage of foreign exchange reserves.
- The majority part of the available foreign exchange reserves is being used to pay the interest of the country's debts.
- As the Sri Lankan rupees are sold to buy foreign currency to use for imports, the country's currency value depreciated

- Sri Lanka imports some basic food items. With the shortage of foreign exchange reserves, the imports were affected negatively and that contributed to food shortage.
- The country decided to go 100% organic in farming. Even though organic farming has plenty of benefits for the environment and for the health of people, it gives very less yield. Less produce contributed to even more food shortages. That resulted in heavy demand and low supply and hence the prices rose sharply, which caused inflation. Moreover, due to less yield, Sri Lanka is forced to import more food, which put even more pressure on foreign exchange reserves.
- Tea and spices are one of the main exports from Sri Lanka. Exports fetch foreign currency. But the switch to organic farming may result in a low yield of tea and spices. Many fear that it may result in fewer exports and that may worsen the present situation.

### Steps that were taken so far:

- The president of Sri Lanka ordered the army to tackle hoarders of food items. Some people hoard food items, which can lead to price rises.
- The government capped the price of food items, which resulted in the selling of staple food items at normal prices.
- Sri Lanka's central bank prohibited traders from exchanging more than 200 Sri Lankan rupees for an American dollar to prevent the further depreciation of the currency.
- The International Monetary Fund has announced an emergency relief package worth \$787 million.

### Conclusion:

Several factors contributed to the economic and food emergency in Sri Lanka. There is a severe shortage of foreign exchange reserves in the country. The utmost priority should be to prevent its negative impact on the common people. And the country is taking steps towards that.

### Your Turn...

What are your thoughts on Sri Lanka's economic crisis? Express your point of view through the comment section below. And subscribe to our blog to read answers to the trending GD topics.

### References:



- [What caused the Sri Lankan economic crisis?](#)
  - [Sri Lanka: COVID, economic crisis cause food shortages](#)
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