



Sri Lanka's economic crisis

Description

Theme:

- The country is facing the worst economic crisis in its history, which started in 2019. In the year 2022, even the prices of basic staple foods, and fuel are so high that the common people are not able to afford them.

The present situation in Sri Lanka:

- People are queuing up at stores to buy basic staple foods. There is a massive food and fuel shortage in the country, and hence the prices of daily food items and fuel have increased to unbearable levels.
- In June 2022, inflation in Sri Lanka is reached to 54.6%, which is an all-time high.
- There is a severe shortage of foreign exchange reserves. The country is not able to repay foreign debt.
- 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.
- [India is helping Sri Lanka](#) by sending financial assistance, food and medical supplies.

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 the country's economy. Moreover, the terrorist attacks in Sri Lanka in the year 2019 too affected the tourism sector. 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 in the initial years of cultivation. 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 resulted in a low yield of tea and spices.

Steps that were taken so far:

- The central bank of Sri Lanka raised interest rates to control inflation.
- Sri Lanka approached the International Monetary Fund (IMF) to bail its economy out of crisis. IMF is monitoring the situation in the country.

Conclusion:

Several factors caused the economic crisis 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.

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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