

Gist of EPW September Week 2, 2021

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1. Lessons from Sri Lanka

Context

Introduction

- The per capita gross domestic product of Sri Lanka is almost 50% higher than that of India.
- The very recent crisis in the Sri Lankan Economy has been significant to India as India shares a lot of similarities with Sri Lanka in terms of Economic Structure and Sectors.

The Recent Economic Events In Sri Lanka

- There was a declaration of economic emergency in Sri Lanka at the end of August 2021.
- The surge in food prices after a sharp depreciation of the Sri Lankan rupee was followed by a crackdown on hoarding of essential commodities by traders.
- The external sector scenario also worsened as imports surged faster than exports running down foreign exchange reserves, and the Sri Lankan rupee sharply depreciated.
- In the wake of the [COVID-19](#) pandemic, the consequent lockdown, and the devastation of the tourism sector, the country faced extreme adversities.
- This has caused a sudden depreciation of the Sri Lankan rupee, surge in prices, and the consequent emergency.

Slowdown

- The slowdown has also immensely impacted the agriculture sector where growth has slumped from 5.8% to 1% to -2.4% in the last three years.
- The impact of the decline in the production of food has been further aggravated by the sharp depreciation of the Sri Lankan rupee, which raised the prices of imported goods, including food.
- The slowdown has sharply eroded savings and investment rates, which have now slumped close to half the peak levels. Last year, unemployment rates were at a decadal high.

Fiscal Indicators

- Government revenues as a share of the GDP are now at a decadal low.
- In contrast, the ratio of the general expenditure of the government to the GDP is at a decadal high.
- Consequently, the ratio of annual borrowings of the government to GDP has shot up to double-digit levels.
- Moreover, the ratio of government debt to GDP ratio has shot up from 70% at the start of the last decade to over 100% now. Foreign financing of the government deficit has further added to the risks.

Currency Depreciation

- The Sri Lankan rupee, on an average had the annual depreciation rate of 5% till the second half of the last decade.
- It has depreciated by around one-third since 2017.
- The international [rating agencies](#) have downgraded Sri Lanka's sovereign rating to negative or put under review in recent months.

Political Extension of the Economic Crisis

- The steady slowdown and crisis in the economy coincided with the growth of ethnocracy and concentration of power in the island nation following the rise of the Sri Lankan political outfit Podujana Peramuna (SLPP).
- It was relaunched in 2016 and is now led by the politically powerful Rajapaksa family that holds the post of both President and Prime Minister.
- The SLPP, which is a right-wing group, has the backing of the powerful Sinhala-Buddhist community, the country's largest ethnic group.
- The Sinhala-Buddhist community firmly roots for a strong leader who can ride roughshod over weak coalition groups that have been labelled as divisive and dysfunctional.
- The 20th amendment to the Sri Lankan Constitution concentrated the powers in the office of the president and encroached on the powers of the legislature and the judiciary.
- The government also withdrew from the efforts that were aimed at reconciliation with the Tamil minority.
- Provincial council elections have been repeatedly postponed to avoid power sharing with smaller groups, including Tamils.

India-Sri Lanka Concurrence

- The above issues are common in India, too, where minorities and civil society groups seem to face similar predicaments.
- Despite the political gains of the Rajapaksas and the increasing concentration of power in the executive, the Sri Lankan economy has gone into a tailspin.
- The political dispensation holding power in India, too, would do well to recognise the limitations of such ethnocentric policies and ensure full protection of constitutional rights to all disadvantaged groups.

Overview

- The Sri Lankan Eco-Political Connect reflects the essential concerns that India might need to look at.
- The glorious political gains do not necessarily translate into economic improvement, many at times as witnessed in India too.

Read previous [EPW](#) articles in the link.