Source : www.thehindu.com Date : 2022-04-18

NO EASY WAY OUT: ON THE RAJAPAKSAS

Relevant for: International Relations | Topic: India - Sri Lanka

Sri Lanka, reeling under unrest over the severe economic crisis, did the inevitable by approaching the International Monetary Fund (IMF) for a bailout programme. All eyes are now on the Sri Lanka-IMF meet in Washington DC this week. According to Finance Minister Ali Sabry, Sri Lanka requires $3 billion in six months to restore supplies of essential items. The island nation has also been talking to other countries. In mid-March, India signed a $1 billion bilateral credit facility pact, under which 16,000 tonnes of rice have been supplied. The steps being taken by the Central Bank of Sri Lanka (CBSL) are all aimed at stabilising the devastated economy. On April 12, the central bank took a hard "last resort" decision of going in for a pre-emptive default on all its foreign debt, of $51 billion. It also effected a seven percentage point hike in interest rates.

Though the present situation has not come all of a sudden, not every ill of the economy can be attributed to the current regime shepherded by the Rajapaksas. Economists describe Sri Lanka as a perfect case study of a twin deficits economy: national expenditure exceeding national income combined with inadequate domestic production of tradable goods and services. The 2019 Easter Sunday attacks and the COVID-19 pandemic later also hit the key foreign exchange earning sectors — tea and garment exports, tourism and worker remittances. The Russia-Ukraine war too is expected to make matters worse. Yet, the Rajapaksa regime cannot fully absolve itself of having led the country to the present situation. Though many experts mooted the idea of going to the IMF two years ago, and the central bank, in its annual report for 2020 (which became available at the end of April 2021), described the contraction of the country's economy by 3.6% in real terms in 2020 as the "deepest recession since independence [in 1948]", the government's response has been insipid. Apart from seeking to curtail imports of a variety of goods, its reaction has been extremely disappointing. Even the move to ban chemical fertilizers had to be taken back subsequently. The crisis has also been aggravated by the President's short-sighted decision to "gift tax cuts" in late 2019, after coming to power, a move which affected the proportion of government revenue to GDP — from 12.6% in 2019 to 9.1% in 2020. For the people, the protests in Colombo reflect their realisation that the regime that they brought in has been virtually clueless about the economic problems. The only saving grace for the government has been the selection of competent experts including P. Nandalal Weerasinghe as CBSL Governor to guide economic affairs. Regardless of the longevity of the agitation in Colombo and elsewhere and the Rajapaksa regime's ability to survive political moves to oust it, it is clear that it no longer enjoys the confidence of many sections of society. But the Rajapaksas cannot allow the crisis to deepen as they try to salvage their political image. The country needs to be put on the path of economic recovery without further delay.

END