

SRI LANKAN MPS MOOT 'ORDERLY RENEGOTIATION' OF FOREIGN DEBT

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

Bad shape: The export sector has been hit hard by the COVID-19 pandemic. File Photo | Photo Credit: ISHARA S. KODIKARA

A group of senior parliamentarians in Sri Lanka, including some aligned to the government, have called for an “orderly negotiated postponement” of outstanding foreign debt, and corrective policy measures including a “strong social welfare scheme”, to combat the island nation’s economic crisis.

In a collective statement dated February 11, the legislators said: “The best way forward for Sri Lanka is to immediately initiate a multistep process towards an orderly negotiated postponement and restructure the repayment of its sovereign debts. Sri Lanka can then correct its policies towards a path of sustainable economic growth and debt management, while also ensuring access to essential needs and goods for the Sri Lankan people and its economy.”

The initiative was led by the Tamil National Alliance (TNA)’s Jaffna MP M.A. Sumanthiran. Senior politicians including TNA Leader R. Sampanthan, government MP Tissa Vitharana, former Speaker Karu Jayasuriya, Leader of Opposition and the Samagi Jana Balawegaya (SJB) Sajith Premadasa, along with a group of other prominent legislators across political parties have signed the statement.

Further, the MPs underscored the need for urgent and “strong social welfare” measures so that the poor and vulnerable communities are protected from the adverse impact of the economic crisis.

Sri Lanka’s economic situation steadily deteriorated since the pandemic struck, with its key foreign revenue earning sectors – exports, tourism, and worker remittances – badly hit. The import-reliant country is facing a severe dollar crunch for months, fanning fears of a sovereign default and a severe food shortage for citizens.

According to local media reports, Sri Lanka’s gross foreign reserves dropped to \$ 2.3 billion in January 2022, down by 24% since December. Sri Lanka must service debt totalling nearly \$7 billion this year.

Usable reserves down

“Repaying U.S. dollar debt in this context means that the usable foreign reserves are down to below one month of imports- the lowest on record since independence,” the MPs said in their statement.

Sri Lanka has sought Indian assistance of over \$2 billion – New Delhi has cleared \$ 1.4 billion – while tapping other sources including China, for further assistance and debt restructure.

The government is divided on seeking support from the International Monetary Fund (IMF), as are economists, some of whom warn that the international lender’s stringent conditions may further erode social welfare schemes that are crucial to prevent starvation at such a critical time.

The recent spotlight on welfare schemes for Sri Lanka's poor comes more than four decades after Sri Lanka liberalised its economy. With the opening up, programmes including the near-universal rice distribution (ration) scheme in operation since the 1940s were halted.

Sri Lanka's current economic meltdown is marked not only by draining foreign reserves, but also by increasing instances of poor families rationing their meals in order to cope with frequent food shortages and soaring costs of essentials.

Official data showed inflation increased to 14.2% in January, while the year-on-year (YoY) food inflation went up to 25%, from 22.1% in December. The price food products began surging in September 2021 hit a record high in January 2022, according to a recent update from the Food and Agriculture Organization of the UN. "As rice, wheat and sugar products account for about 40, 12 and 10%, respectively, of the average calories intake, vulnerable households have likely reduced their food consumption and/or switched to comparatively cheaper but less nutritious foods, with an overall negative effect on their food security, health and nutrition status," the FAO said.

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