

Context of Sri Lanka's Crisis

The emergency in Sri Lanka following its economic collapse in 2022 has led to a complex situation with multiple challenges and responses. A year after the crisis, Sri Lanka has seen some stabilization, such as the absence of long queues at fuel stations and the end of extensive power cuts. The country's central bank anticipated economic growth resuming after six consecutive quarters of contraction. There has been a surge in overseas remittances and an increase in tourist numbers, which are positive signs. However, the country still faces significant challenges, including high costs for food, healthcare, and housing, a doubled poverty rate, and ongoing negotiations to restructure government debt. Inflation, although easing, remains high, and the cost of living continues to be a burden, especially for daily wage earners who are among the hardest hit by the crisis.

The Sri Lankan government has implemented measures such as a direct cash transfer program to support approximately 2.3 million families. However, there are concerns about the adequacy of this support. Economic gains, such as a rise in tourism revenues and a jump in remittances, have contributed to some financial stability, but the country still needs to rework a significant portion of its \$36 billion foreign debt. President Ranil Wickremesinghe, who took office following the ouster of the previous president amid the crisis, has aimed to finalize debt talks and is reliant on an IMF bailout for immediate relief. Despite these efforts, the country's export-driven economy is expected to contract, with exports decreasing, particularly in garments to the EU and the US. A year later, Sri Lanka's tentative economic recovery eludes the poor (Reuters, 2024, 2023a, 2023b).

According to the World Bank's Sri Lanka Development Update 2023 (World Bank, 2023), the economy experienced significant contraction, with sectors like construction, manufacturing, real estate, and financial services suffering the most. Headline inflation peaked at a high rate but has since declined, offering some relief to households. However, poverty nearly doubled last year, with increasing food insecurity and malnutrition, especially among poor households. The government is undertaking structural reforms to regain macroeconomic stability and a sustainable growth path. These reforms include utility pricing adjustments, revenue-enhancing measures, and various economic and policy reforms. An IMF-approved Extended Fund Facility aims to support these reforms, and debt restructuring discussions with external creditors are ongoing (Central Bank of Sri Lanka, 2023; World Bank, 2023).

The situation in Sri Lanka highlights the critical challenges faced in the wake of an economic collapse, including the need for comprehensive economic reforms, the importance of international financial support, and the ongoing struggle to alleviate poverty and support the most vulnerable populations.