

*Research Paper*

## **Socio-political root of economic crisis of Sri Lanka in 2022**

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### **Abstract**

The main objective of this study is to investigate the relationship between economics and other social science disciplines, including sociology and political science, in relation to the current economic crisis in Sri Lanka. Qualitative and quantitative data demonstrate that the current economic crisis in Sri Lanka is an outcome of socio-political unrest with civil war between and within the communities from 1983 to 2021. Observation, key person interviews, and statistical (correlation and regression) analyses of time series data from 1983 and 2021 show that Sri Lanka's overall macroeconomic stability, measured by six macroeconomic variables altogether, is positively correlated with socio-political stability, measured by a proxy of percentage change of tourist arrivals with a correlation coefficient of 0.52. One percentage change in socio-political stability leads to a 0.35 percent increase in macroeconomic stability. Effects of socio-political instability are more significant than openness and economic policy in the determination of overall macroeconomic stability. The interviews with subject experts confirm these findings. Policymakers in Sri Lanka have to correct past ethnic policies and bring permanent peace and socio-political solidarity between and within the communities before economic policy reforms to secure the economy from crisis.

**Keywords:** Macroeconomic stability, socio-political stability, substitution, economic crisis, recovery.

### **1. Introduction**

Economic development of nations is viewed as a confluence of determinants of social, political, historical, geographical and economic forces. Sri Lanka's economic crisis in 2021–22 is rooted in its long-term connection with the application of these forces, specifically, social and political determinants<sup>2</sup>. The possibility of economic crisis had started from the time of independence with socio-political unrest between and within communities related to Sinhala and Tamil nationalisms. Sri Lanka's economy has been in a crisis due to serious balance of payment and fiscal deficits problems, so-called twin deficits crisis<sup>3</sup>. Because of the balance of payment problem, Sri Lanka faced difficulties in

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<sup>2</sup> One positive thing I see in this crisis is that this is the end of Sinhala-Buddhist nationalism. Even though the President scored points by taking Sinhala-Buddhist nationalism at the core of his political agenda, he has ultimately dragged the country towards a hell hole (Wickramasinghe, 2022).

<sup>3</sup> The crisis led to skyrocketing prices, double-digit inflation, a more than 100 percent increase in fuel prices, multi-hour power cuts, depleting foreign exchange reserves, an acute shortage of food and medicines, a dramatic collapse in incomes,

importing essential consumption goods such as food, fuel and fertilizers in 2022. Sri Lanka has defaulted her external loan for the first time in history and borrowed from the domestic market to finance its huge public expenditure. Domestic agricultural production has fallen. Hunger and malnourishment have been rising. The inflation soared to 76 per cent in 2021 and gradually started to decline. The general consensus about the source for this crisis is said to be the COVID-19 pandemic during the period of 2019 to 2022 (United Nations Children's Fund, 2020; World Bank, 2021; De Silva, 2021). But it is debatable whether it was caused entirely by COVID-19. Because of politically motivated economic and social policies, the country has faced conflict, violence and civil war which were the foundation for the poor performance of the economy since independence. Therefore, the political and social unrest between and within the communities prevailing from the independence of Sri Lanka until now has been the root cause for the worsening of macroeconomic stability and the subsequent economic crisis.

Sri Lanka is natural beautiful island in the Indian Ocean with 65,610 km<sup>2</sup> of land area It has a population of 20,359,439, comprising of three major ethnic groups— Sinhalese (74.9%), Sri Lankan Tamils (11.2%), Sri Lankan Moors (9.2%), Indian Tamils (4.2%), and others (0.5%). The capital city is Colombo. Sri Lankan has two major languages— Sinhala (87%) and Tamil (28.5%). Both are the official and national languages of Sri Lanka. English is also spoken by 23.8% of the population (Department of Census and Statistics, 2015). Sri Lanka, a country with abundant natural and human resources, enjoying favourable economic conditions at the time of independence, now faces a poverty trap as a lower middle-income country after seven decades since independence. The civil war ended in Sri Lanka in 2009. But discriminative policies and violence against ethnic minorities continue unabated even after the conclusion of the war<sup>4</sup>. As Collier (2007) has highlighted, defense expenditure of Sri Lanka did not decline even after the conclusion of the war. It is a clear indication that Sri Lanka has not sought a permanent peace and reconciliation for conflict and war yet. Easterly (2006) shows many examples from African countries that, despite getting huge amount of foreign aid, have been unable to break down the poison circle and move toward economic development. Foreign aid to this region, despite the huge natural resources, has been simply wasted by these countries. As Hillman (2002) highlighted, social welfare with no economic growth, corruption, social and political unrest, violence, conflict, ethnic discrimination, power-hungry political elites, wonderland academics, donors and political leaders are responsible for the failure of economic development and persistence of poverty in these nations. All these factors are applicable to Sri Lanka. According to Sachs (2005), economic development of a nation is made by the confluence forces of sociology, politics—both

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mounting government deficits, devastating government policies, record debt defaults, and a downgraded currency rating (George & Gupta, 2023).

<sup>4</sup> “The end of a war often is not the end of the conflict, once over, a conflict is alarmingly likely to restart. Furthermore, the experience of having been through a civil war roughly doubles the risk of another conflict. ... Government in post conflict societies are well aware that they are living dangerously. Typically, they react to this risk by maintaining their military spending at an abnormally high level. The military during the post conflict decade looks much more like a military at war than one at peace” (Collier, 2007. p. 27).

internal and external, history of the nation, geography, management and, finally, economics, which makes sound institutions and their efficient functions for rapid growth. Acemoglu and Robinson (2012) explain why Arizona city in the United States of America is more developed than Nogales in Mexico. Social, political, and economic institutions and their active operations are key causes for this difference. Conflict, violence, civil war, and invasion of neighbouring countries may trap the nation into poverty. The development economist Easterly (2006) shows how social and political forces perpetuate underdevelopment in developing countries. Such literature generates space to view Sri Lanka's current economic crisis with respect to social and political causes versus economic causes. This study, unlike most studies in Sri Lanka, illustrates how socio-political unrest engendered by language policy, educational policy, social democratic welfare policy, religious policy and ethnic policy of Sri Lanka made room for the current economic crisis and suggests policy changes in politics and social issues, rather than economic issues, in order to recover the economy from crisis.

Sri Lanka has been under economic crisis since 2021. Why did this crisis occur? What are the root causes of this economic crisis? Is COVID-19 pandemic the cause for this economic crisis? Was it a result of shortcomings in economic policy, or social issues—related policy, or political policy? Is it economic mismanagement or social and political mismanagement? What are the real and fundamental causes for the current economic crisis? Where should the policy changes be corrected? What policy should be adopted to recover the economy from crisis? Almost all academicians, policy makers and consultants of economic development in Sri Lanka focus on the policy reforms on the economic surface. It has been continuing after the severe economic crisis in 2022. In a volume on fifty years' economic progress of independent Sri Lanka, Lakshman (1997) highlights that none of the articles in the volume hypothesized that social and political causes were more responsible for the economic setback of Sri Lanka<sup>5</sup>. The main objective of this study is to find out the impact of social and political unrest on overall macroeconomic stability and policy reforms to recover Sri Lankan economy from the current economic crisis in 2022.

## 2. Socio-Political Stability and Macroeconomic Stability.

Conflict and war are common phenomenon in developed and developing countries<sup>6</sup>. History of the world teaches us that civil war is inevitable for nations in the world<sup>7</sup>.

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<sup>5</sup> “Though the issue has not been raised in any of the papers in the publication, it could be hypothesized that many institutional, cultural, political and other peculiarities of the country, not captured in the policy critique of mainstream economic discourse were behind Sri Lanka's failure to economically keep up with those other countries which, four decade ago, were at either parallel or inferior conditions” (Lakshman ,1997, p. 16).

<sup>6</sup> “Seventy three percent of people in the societies of bottom billion have recently been through the civil war or still in one. Many other countries have had civil wars at one time or another-The United States had one in the nineteenth century, Russia one early in the twentieth country, and Britain one back in the seventeenth—but, as these examples show, wars are not necessarily traps. The American, Russian, and British civil wars were ghastly at the time but were over fairly quickly and were not repeated” (Collier, 2007, p. 17).

However, wars give us experience and the opportunity to correct past policies to plan for the future. Collier (2007) explains the conflict trap and how these countries go to conflict and war and hence underdevelopment and poverty. He reports that 73 percent of people in the societies of the bottom billion have recently gone through a civil war or are still in one. The military during the post-conflict decade looks much more like a military at war than one at peace. According to the budget proposal of Sri Lanka in 2022, the military expenditure as percentage of total government expenditure is 35 percent. It is not only in the postwar period, but also in economic crisis time. It has been increased further in the budget proposal for 2023. Civil war reduces economic growth by around 2–3 percent<sup>8</sup>. Economic growth, which is a key macroeconomic objective of nations, has been a precondition for economic development. Santhirasegaram and Amirthalingam (2010) report that Sri Lanka has lost on average 5.6 percent of economic growth per annum due to the conflict, violence and war between and within communities during 1961–2005. Sri Lanka had achieved only 4.3 percent growth during this period. In spite of low economic growth, Sri Lanka's other macroeconomic indicators reported favourable movement. Easterly (2006) has postulated that poverty reduction requires economic growth, which is closely associated with physical capital accumulation and technology. Sri Lanka has achieved low inflation, low unemployment and low poverty without rapid economic growth despite the war. Devapriya (2022) confirms the political dimensions of the current economic crisis in Sri Lanka within the majority communities, the major political parties, United National Parties (UNP) and Sri Lanka Freedom Party (SLFP) and their coalitions.

Abeyratne (2004) stated that economic causes such as policy errors and welfare democracy have created the problem of scarcity of resources and opportunities. Economic problems such as scarcity of resources are the fundamental factors of political conflict. But this study tries to show social and political determinants as the root cause for economic crisis in Sri Lanka. Cooray and Rankoduwa (2022) emphasize that countries like Sri Lanka should focus on solutions for socio economic and political problems rather than economic growth and development. Murad and Alshyab (2019) show that political instability (both internal and external) has a significant impact on economic performance in Jordan. There is a positive impact of external political stability on economic growth. Haroon and Jehan (2022) introduced a measure for impact of violence on macroeconomic stability and show how violence adversely affects macroeconomic

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<sup>7</sup> "All in all, the cost of a typical civil war to the country and its neighbors can be put around \$64 billion. In recent decades about two new civil wars have started each year, so the global cost has been over \$100 billion a year, or around double the global aid budget" (Collier, 2007, p. 32).

<sup>8</sup> "Civil war tends to reduce growth by around 2.3 percent per year, so the typical seven-year war leaves a country around 15 percent poorer than it would have been" (Collier, 2007, p. 27).

stability. Butkiewicz and Yanikkaya (2005) estimate the growth effects of 17 different measures of sociopolitical instability, where each variable is a proxy for an aspect of instability.

### **3. Methodology and Data**

This study uses qualitative and quantitative methods to analyze data from the Central Bank of Sri Lanka (2000, 2011, 2022) and the database of world development indicators (World Bank, 2023). Social and political determinants of overall macroeconomic stability are explained by qualitative and quantitative methods. In quantitative analyses, the dependent variable macroeconomic stability is measured by calculating a common trend time series variable by summing up annual rate of economic growth (EG) with annual percentage change of international currency reserves (IR) and subtracting annual rate of inflation (RI), annual rate of depreciation of the rupee against US \$ (RD), annual rate of public debt (PD) during 1983-2021. The technique of diffusion index (Stock & Watson, 2002) is used through secondary data collected from the Central Bank of Sri Lanka. Socio political stability is measured by a proxy variable, the annual percentage change of tourist arrivals (Santhirasegaram & Amirthalingam, 2010). In this study, socio political unrest is hypothesized as the fundamental cause of current economic crisis. The degree of economic crisis is the dependent variable and socio-political unrest is the independent variable. Correlation and simple regression are used for analyzing the impact of socio-political stability on overall macroeconomic stability. With a view to triangulate the quantitative findings, qualitative data were gathered in the form of key person interviews. Eight key person interviews were conducted with scholars working in the field of political economy of Sri Lanka. The opinion and insights gained from these persons are referred to in the text as 'KI 01', 'KI 02', and so on, where the number indicates the serial identification number given to the respondent.

### **4. Results and Discussion**

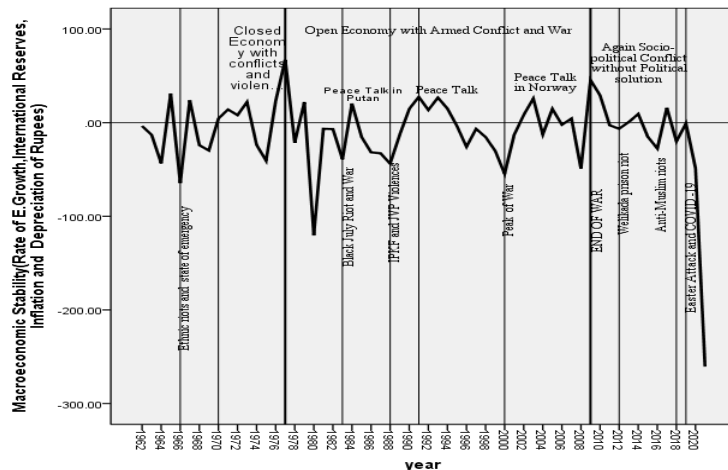
According to the various issues of the annual reports of the Central Bank of Sri Lanka, absolute poverty of Sri Lanka in 1995–96 was 28.8 percent. It came down to 4.1 percent in 2016. The unemployment rate in 2002 was 8.76 percent. It decreased to 4.32 percent in 2019. The inflation rate was in double digits before 2005. It came down to a single digit after 2009. It was 3.53 percent in 2019 (nearly equal to developed countries). Average economic growth rate of Sri Lanka was 4.7 percent during 1978–2019. The foreign currency reserve before 2005 was around US\$ 3 million. It was around US\$ 7 million in 2019. Most of the macroeconomic indicators were constructive for Sri Lanka despite profound social and political unrest due to 30 years of civil war. How was such macroeconomic achievement possible for Sri Lanka despite the civil war?

Sri Lanka increased the size of her military and military expenditure during 1983–2009 with the number of personnel going up from 35,000 in 1990 to nearly 350,000 in 2009<sup>9</sup>. Military expansion provided employment to the youth, especially from poor families and reduced unemployment and poverty among majority Sinhalese. Increased share in GDP of public administration and defense from the service sector kept economic growth at a moderate level. Increased government expenditure in defense and discrimination based social welfare services such as free education, free land (dry zone internal colonization), expenditure on free health to ensure growth of Sinhala majority population, at top level of public services had increased budget deficit. But these were financed by foreign aid and public debts both internal and external. Sri Lanka's economic liberalization and civil armed war were concurrent in the period from 1978 to 2009. The expansion of the military in Sri Lanka in the name of war against terrorism provided the justification for Sri Lanka to raise funds to finance the war from the international community in the form of both grants and aid. It reduced the inflationary pressure on the economy and inflation came down. Thus, higher employment (or reduction of unemployment), moderate economic growth, poverty reduction and low inflation have been accomplished by foreign aid and borrowings. External debt has been substituted for these major macroeconomic achievements. In this context, if overall macroeconomic stability is analyzed by incorporating other macroeconomic goals such as minimizing public debt, stabilizing the external value of rupee and strengthening of public enterprises without privatization revenue to finance budget deficit, the overall macroeconomic stability will be found to be very weak during the war period. This paper, therefore, argues that overall macroeconomic instability led to economic crisis in 2021-22 when foreign financing either stopped or evaporated. Achieving all macroeconomic goals simultaneously without tradeoffs among them is widely accepted by policy makers and is considered as excellent management of the economy. Unemployment, poverty, and inflation decreased from double digits to a single digit during war period in Sri Lanka. It implies that conflict, violence, and increased defense expenditure did not adversely affect these macroeconomic variables. However, if we consider all possible macroeconomic variables such as public debt, external value of rupee, international currency reserves and preservation of national assets simultaneously in relation to socio-political unrest and war, the overall macroeconomic stability will be found weak when socio-political unrest was higher and vice-versa. Sri Lankan economy has been pathetic in terms of overall macroeconomic stability due to the civil war, exacerbated by social and political forces from external and internal shocks such as COVID-19 and falling tourism income due to the Easter attack in 2019. Social and political practices such as ethnic discrimination, ethnic riots, dry zone colonization, Sinhala only language policy, religious chauvinism, militarization in minority-held land etc. have been continuing even after the end of the war. Rather than removing the socio-political causes of ethnic conflict and civil war, creating ethnic harmony and unity, attracting foreign and domestic investment into the

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<sup>9</sup> Data is reported in various media nationally and internationally. The actual size may be more than it.

economy, and increasing productive employment and output, the same contradictory policies that have led to the destruction of this beautiful Sri Lankan nation since independence have been carried forward at a new pace after the defeat of the Liberation Tigers of Tamil Eelam (LTTE) in 2009 with foreign aid and foreign loans, especially from China. The Sri Lankan economy, which was already fragmented under this approach, went into economic crisis due to external shock of COVID-19. Now the question is that why Sri Lanka was trapped in economic crisis in 2021? Twin deficits, current account deficit due to higher trade deficit and budget deficit due to higher public expenditure, are said to be the major causes for this crisis. Why was Sri Lanka unable to build a strong export sector and minimize import? Why was Sri Lanka unable to control public expenditure? Answers to these questions provided by academics are economic mismanagement and policy errors, which are economic factors. This study hypothesizes that the answers are related to sociological, historical, and political factors instead. Social democratic welfare diverted a huge amount of resources from investment to consumption expenditure. Both social welfare and defense expenditures serve the political needs of politicians for pork barrel public expenditures to keep the political power of leaders which made continuous budget deficits and mounting the public debt (Santhirasegaram, 2022; KPIs 01, 02, 04 & 07).



**Figure 1.** Macroeconomic stability of Sri Lanka based four Indicators during 1962–2021.

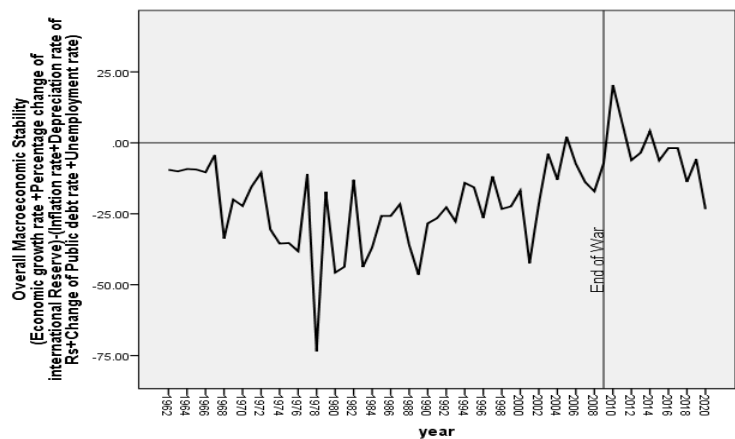
Source: Calculated from data of Central Bank of Sri Lanka and World Bank online database.

Figure 1 shows that the years with peace have macroeconomic strength in aggregate percentage changes of the four selected variables—rate of economic growth, rate of foreign reserve changes, rate of inflation (-) and rate of depreciation (-). The economic crisis has been intensified by COVID-19 pandemic. The years which had peace or initiatives for peace talk showed a positive macroeconomic stability. The years which had more violence and intense war are shown to have lower macroeconomic stability. The

years 1983 (the year of a major ethnic riot in so called black July), 1988 (arrival of Indian Peace Keeping Force in the north and east of Sri Lanka and Janatha Vimukthi Peramuna’s violence in the south), 2000 (intense war in the north and east) and 2008 (last war in Mullivaykkal of Vanni) had lower macroeconomic stability. The years 1984 (peace talk in Thimpu, Bhutan), 1991–92 (peace talk in Sri Lanka) and 2002–03 (peace talk facilitated by Norway) have higher macroeconomic stability. It is clear that peace has increased macroeconomic stability.

Although there are various factors influencing Sri Lanka’s economic crisis, the root cause of this crisis is political and social unrest emanating from the civil war. Sri Lanka’s economic crisis is not a short-term, one indicator-based phenomenon. It is a long-term multi-disciplinary, multi-variable related phenomenon.

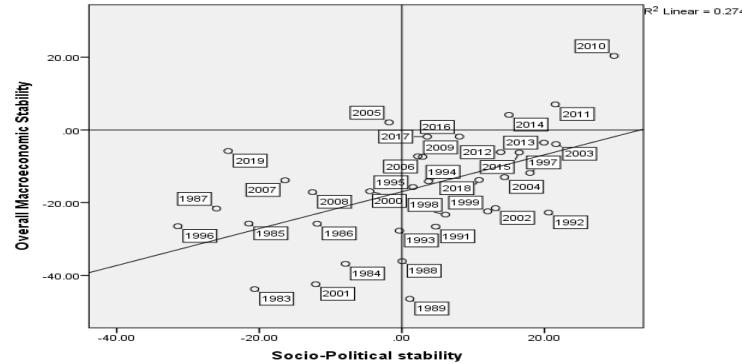
Figure 2 explains the overall macroeconomic stability based on economic growth rate, percentage change of international currency reserve, inflation rate, depreciation rate of Rupee, change of public debt rate and unemployment rate. According to these six measures, Sri Lanka achieved positive macroeconomic stability in 2009–10 only when the Sri Lanka had ended civil war. It should have been a milestone for Sri Lanka to change the social and political policies which led the nation to a manmade disaster and to create a new Sri Lanka with lessons from past experiences. Sri Lanka failed to learn from the past. Because of conflicts, riots particularly against the Muslim minority, discrimination, disappearing and kidnapping, and militarization in northern and eastern provinces of Sri Lanka during 2010–2019, the country went back to the same starting points of the civil war era and macroeconomic stability returned to negative again, before precipitating to the economic crisis of 2022. It clearly shows that Sri Lanka should correct social and political policies rather than economic policy to recover the economy from crisis.



**Figure 2.** Macroeconomic stability of Sri Lanka based six Indicators:1983-2021. Source: Calculated from data of Central Bank of Sri Lanka and World Bank online database.



Figure 3 shows a scatter plot of socio-political and macroeconomic stability in Sri Lanka during 1983–2021. The year 2020 and 2021 are outliers from the common trend since instability entered into the economic crisis. After removing the outliers, the correlation between socio-political stability and macroeconomic stability is 0.52 at the one percent significance level. It confirms that socio-political stability has a positive relationship with overall macroeconomic stability. Sri Lanka cannot recuperate from economic crisis without permanent peace and reconciliation between and within the communities.



**Figure 3.** Socio-Political and Macroeconomic Stability in Sri Lanka: 1983-2021. Source: Calculated from data of Central Bank of Sri Lanka and World Bank online data base.

The role of socio-political stability in determination of overall macroeconomic stability can be explained through the simple OLS regression of annual time series data during 1983–2019. Measures for all variables are captured in percentage and have stationary series properties. The dependent variable is overall macroeconomic stability, which is determined by economic resources captured by capital expenditure as a percentage of GDP. Economic policy environment is captured by openness of economy. It is measured by export and import values as percentages of GDP. Socio-political stability, which results from social and political policies for building peace, is measured by a proxy variable, percentage change of tourist arrivals. The regression equation is formulated as follows.

$$Y_t = B_0 + B_1X_{1t} + B_2X_{2t} + B_3X_{3t} + e_t \quad (1)$$

Where,  $Y_t$  = macroeconomic stability

$X_1$  = resource (capital expenditure as percentage of GDP)

$X_2$  = economic policy (export and import as percentages of GDP)

$X_3$  = socio-political stability (percentage change of tourist arrivals)

$e_t$  = error term

The regression analysis yielded the following result:

$$Y_t = -40.8 + 1.39X_1 - 0.21X_2 + 0.35X_3$$

with  $N = 39$ ,  $df = 36$ ,  $p$ -values for  $B_0$ ,  $B_1$ ,  $B_2$ , and  $B_3 = 0.10, 0.03, 0.23$ , and  $0.01$ ,  $R = 0.70$ , and  $R^2 = 0.491$ .

According to the regression result, capital accumulation has a positive effect on macroeconomic stability at a one percent significance level. Openness has a negative but insignificant effect on macroeconomic stability. The objective variable socio-political stability has a positive impact on macroeconomic stability significantly. Sri Lanka has to maintain socio-political stability to attain macroeconomic stability. The economic crisis in 2021 and 2022 is strongly connected to weak macroeconomic stability during civil war period which had been strongly determined by poor socio-political stability. The economic crisis in 2021–22 is an outcome of ethnic conflict and war, rather than economic policy errors during the liberalization period of 1983–2021, which had weakened macroeconomic stability in a comprehensive manner. Sri Lanka failed to eliminate the causes for conflict and war even in the post war period and encouraged further social and political policy that promoted conflict. Donors came to realize the nature of Sri Lankan policy on ethnic conflict and war, and they stopped or reduced foreign aids.

Land distribution and expenditure in agriculture have not enhanced food production to reach self-sufficiency even in rice production since expenditure in agriculture development schemes such as Mahaweli, Gal Oya projects had political agenda which made conflict and war rather than economic development<sup>10</sup>. Agricultural development has led to dependency on food imports. Light export industry, which is heavily dependent on imports, has not been steered toward heavy industry or industry for input of light industry since Sri Lanka has failed to build up confidence in investors who prioritize long run political stability and good governance. It led to less export earnings and more dependence on imports. External borrowings from donor countries and international financial institutions have not been spent on income generating projects. Pork barrel social welfare and military budgets have been financed with external borrowings. Hence the fundamental cause for budget deficit (via social welfare and defense expenditure) and trade deficit (via exports and imports), current account and capital account deficits (via external borrowings and inflow of foreign direct investment) is confirmed in this study as ethnic politics, conflict, and war of Sri Lanka. This chaos of development and plight of macroeconomic stability requires a diagnosis of the malaise in the economy. Donors and the international community can give only temporally relief, like an analgesic to the pain of economic illness. Diagnosticians to reveal the ailment of the economy should come from Sri Lanka herself. Academics in Sri Lanka have a pivotal role to unravel the economic knot created by kleptocracy. Sadly, in this context, most of the academics in Sri Lanka seem to have distanced themselves from reality. Sri Lanka Economist Association (SLEA) had a three-day workshop in 2010, after the end of the war in 2009, under the title of causes of economic slowdown in Sri Lanka. None of the papers had considered the hypothesis that ethnic conflict, violence, and civil war

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<sup>10</sup> William Easterly pointed out that “A study of the Mahaweli irrigation project in Sri Lanka showed that aid biased toward the Sinhalese areas exacerbated the Tamil-Sinhalese hatred during the ongoing civil war” (Easterly, 2006, p.144).

adversely affected the economy. One paper hypothesized that favourable weather conditions in Kenya had led to slow down of economic growth of Sri Lanka via losing the competitiveness of Sri Lankan tea in the international market.

There were many seminars, workshops, public talks, and conferences on the causes of economic setback and crisis in Sri Lanka during 2009–2022. Themes like conflict, war and defense expenditure, and Sri Lankan economic setback were ignored. SLEA, which has been a leading academic forum for guiding the economic development of this island, conducted an annual conference on October 15–16 2010 with the theme of “perspectives for accelerated growth and development”. Eight academic papers under four sessions were presented. None of the papers in these sessions captured the social and political conflict undermining the economy. SLEA’s International Conference titled ‘Managing economic crisis in Sri Lanka’ took place on 9 and 10 December 2022, i.e., after 12 years of ending the war. The sessions were titled monetary policy and macroeconomic stabilization; role of exchange rate in economic crisis managing; fiscal policy strategies for macro-economic stabilization; managing the debt crisis for economic stability; policy strategies for overcoming balance of payments crisis; enhancing foreign inflows: policy perspectives; resetting agriculture policies to ensure food security; and promote growth linkages and reorienting manufacturing sector to drive economic revival. This international conference did not reflect on the conflict, violence, and war in Sri Lanka as possible causes for the 2022 economic crisis. But Lakshman (1997) indicated such a potential linkage more than two decades ago in a country like Sri Lanka where many institutional, cultural, political, and other kinds of peculiarities exist. This study has sought to focus on this research gap. It has clearly shown that social, political, and historical roots based on ethnic, linguistic, and religious policies of Sri Lanka and the resultant conflict, violence, and war had made room for socio-political and macroeconomic instability and hence the economic crisis in 2022. Unfortunately, majority of academics in Sri Lanka ignore the country’s root causes for economic crisis and recommend getting financial aid from the international community as temporary relief of symptoms without treating the root cause. Hence the country is subjected to neo-financial colonialism of India, China, and Western countries (Santhirasegaram, 2022; KPIs 05, 06, 07, & 08).

## **5. Conclusion and Recommendation**

Economic development and planning are not pure natural science to prove facts with models and data. It deals with issues at the confluence of social sciences, particularly sociology and political science and economics. In this view, this study has hypothesized that Sri Lanka’s economic crisis in 2021–22 was an outcome of confluence determinants which needs to be studied through the lens of sociology, political science, history, and economics. The findings are, firstly, Sri Lanka’s macroeconomic goals had been substituted by policy makers to attract public votes. Despite intense civil war during 1983–2009, low inflation, low unemployment, rapid poverty reduction and moderate economic growth have been achieved via substituting increased external and internal

public debts and foreign aid to fight terrorism, revenue from privatization of economy, and depreciation of the rupee. As this study has analyzed the overall macroeconomic stability with six concurrent measures, the overall macroeconomic stability was very weak. Social and political unrest between and within the communities and civil war made the economy fragile and Sri Lanka was unable to meet the external shock which came in the form of COVID-19 in 2020. Secondly, socio-political instability, rather than economic liberalization and openness, adversely affected the macroeconomic stability in Sri Lanka. Thirdly, permanent peace and reconciliation among ethnic groups in Sri Lanka are preconditions for securing the economy from crisis. Members of the international community, such as India, USA, Japan, and the European Union, have been emphasizing the role of reconciliation among the ethnic groups and implementation of a political solution to the ethnic problem in Sri Lanka. The ivory-tower academics in Sri Lanka are more accountable and should come down to earth to secure the economy from the crisis and back a better and new Sri Lanka. Unfortunately, they are tied and entangled with ethnic and religious chauvinism, welfarism, militarization, majoritarianism, and geopolitics. These are the challenges to secure macroeconomic stability. This study recommends that economic recovery of Sri Lanka is possible only if Sri Lanka achieves permanent peace and reconciliation between and within the communities. One vote to one man alone will not bring permanent peace. Voters have self-interest and politicians are power hungry and ethnic minded which do not bode well for nation building. Like Singapore, South Korea, Malaysia in the past and China at present, Sri Lanka can benefit from a one-party political system under a visionary leadership and Sri Lankan nationalism to change the political culture and lay the foundation for macroeconomic stability<sup>11</sup>.

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<sup>11</sup> Santhirasegaram (2022); KI 03.

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