

Sri Lanka in Crisis

July 11, 2022

Sri Lanka is in the [midst of an economic and political crisis](#) that may have far-reaching ramifications for the country's political development and regional relations. Flawed agricultural policies (see below), a tax cut, limited foreign exchange, declines in remittances and tourism, and the increasing costs of food and fuel [in part due to the war in the Ukraine](#) all arguably contributed to the current crisis. Mass demonstrations protesting the government's inability to alleviate food, fuel, and medicine shortages and address power cuts culminated in protesters [storming the presidential palace](#) and the prime minister's residence on July 9th. President [Gotabaya Rajapaksa fled to Male', Maldives, and then Singapore](#), and formally resigned on July 15. There are reports [the U.S. Government rejected Gotabaya's recent visa request](#). The Parliament announced it would convene on July 16 and select a new president within a week. Prime Minister Ranil Wickremesinghe, now also acting president, announced a state of emergency and [imposed a curfew in the country's western province](#), including Colombo, following Gotabaya's departure. Wickremesinghe has stated he will resign once a new government is in place.

The Economic Crisis

[Sri Lanka defaulted on its debts](#) for the first time in May 2022, and the government informed creditors it would not make payments until it was able to restructure its debt. [Sri Lanka reportedly owes \\$51 billion](#), with \$7 billion due in 2022. Sri Lanka's largest external creditors are the Asian Development Bank (13%), Japan (10%), China (10%), and the World Bank (9%). Some analysts forecast that Sri Lanka's economy will [contract by more than 6%](#) in 2022, while the World Food Program estimates that [over 22% of the population are food insecure](#). [Inflation reached a year-on-year record of over 50%](#) in June 2022. Rajapaksa had banned imports of synthetic agrochemicals, including chemical fertilizers and pesticides, as part of a [policy to move Sri Lanka to organic agriculture](#) without a transition period. This, and fuel shortages, led to an [estimated decrease in agricultural yields of 20% and 70%](#) for the growing season ending in March 2022. Remittances from overseas workers have declined to less than half of 2019 levels, and tourism is down due to the COVID-19 pandemic. [Media reports suggest some Sri Lankans](#), particularly ethnic Tamils, are fleeing the country for destinations such as India and Australia, raising the prospect of a new refugee crisis.

Congressional Research Service

<https://crsreports.congress.gov>

IN11969

Political Crisis

President Rajapaksa and his brother, former President Mahinda Rajapaksa, had been popular with the Sinhalese-Buddhist majority for their victory over the Liberation Tigers of Tamil Ealam. Human rights and democracy advocates criticized the Rajapaksas for nepotism, failure to pursue national reconciliation after the civil war, and a security-focused approach to the Tamil community. Other observers viewed Mahinda Rajapaksa as having [tilted Sri Lanka towards China](#) during his administration (2005-2015). Efforts by Gotabaya Rajapaksa to stem the current crisis failed, and in April Members of the Cabinet resigned, followed by Prime Minister Mahinda Rajapaksa in May. New Prime Minister Wickremesinghe became acting president on July 13th.

Prospects for a Bailout

The [International Monetary Fund \(IMF\)](#) reportedly is [hoping for a resolution](#) of Sri Lanka's political turmoil so that talks on a bailout package can resume with the new government. Sri Lanka's foreign exchange reserves fell to a record low of [\\$1.92 billion](#) at the end of May 2022. In December 2021, the Rajapaksa government reached a [\\$1.5 billion currency swap arrangement](#) with China, but Sri Lanka cannot use the facility because China requires it to have foreign reserves equivalent to three months of imports to do so, potentially complicating talks with the IMF. [India has reportedly provided \\$4 billion](#) in credit and loans to help Sri Lanka carry on until it can negotiate an IMF bailout package.

Issues for Congress

A humanitarian crisis in Sri Lanka could impact the broader region, including through refugee flows. The United States, some other countries, and multilateral organizations are trying to avert such an outcome by providing assistance. India has moved quickly to address the situation, and issued a statement asserting that [Sri Lanka is at the center of its "Neighborhood First" policy](#). Addressing the crisis may offer opportunities for ["Quad"](#) members—Australia, India, Japan, and the United States—to cooperate.

The Biden Administration announced [\\$12 million in food assistance](#) for Sri Lanka on June 21, 2022, and Congress may consider additional measures. A [June 25 posting by the U.S. Embassy in Colombo](#) reported that "the U.S. has announced \$120 million in new financing for Sri Lankan small and medium-sized businesses, a \$27 million contribution to Sri Lanka's dairy industry and \$5.75 million in humanitarian assistance [and] ... committed \$6 million in new grants to provide livelihood assistance to vulnerable populations." On June 28, President Biden announced [\\$20 million in additional assistance](#) to strengthen food security in Sri Lanka. The crisis may lead Sri Lanka to [overcome its reluctance to take other forms of U.S. assistance](#); [President Rajapaksa in 2020](#) had rejected a proposed \$480 million Millennium Challenge Compact. The Sri Lankan government has sought to renegotiate the terms of its currency swap agreement with China and receive additional loans, but Beijing has not yet responded.

A new government in Colombo may offer an opportunity to address human rights issues. The Rajapaksas had focused on perceived threats emanating from Tamil and Muslim minorities, and had stepped back from local and international efforts, including at the U.N., to address inequities and human rights abuses stemming from the civil war. Congress currently conditions U.S. assistance to Sri Lanka on the government taking meaningful steps on a number of issues, including human rights and governance, and may consider structuring new assistance in a way that would contribute to reconciliation efforts.

Author Information

Bruce Vaughn
Specialist in Asian Affairs

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.