

India extends \$900 mn aid to Sri Lanka

Sri Lanka is witnessing an economic crisis

- India confirmed a \$400 million currency swap while deferring another \$500 million due for settlement to the Asian Clearing Union (ACU)
- The RBI had extended a similar swap facility of \$400 million to help Sri Lanka cope with the impact of the first wave of the pandemic.

Asian Clearing Union (ACU)

- The ACU with HQ in Tehran, Iran, was established in 1974 by UNESCAP.
- The primary objective was to secure regional co-operation as regards the settlement of eligible monetary transactions among the members.
- It now aims to provide a system for clearing payments among the member countries on a multilateral basis.
- The unit of settlement of ACU transactions is a common unit of account of ACU.
- 1 ACU Dollar = 1 US Dollar

Sri Lanka's aggravating economic crisis

Sri Lanka's economic crisis is aggravating rapidly, putting citizens through enormous hardship.

Recent development:

- The price of cooking gas spiked and the price of the milk powder shot up.
- Authorities were forced to cancel school examinations for millions of students, due to a shortage of paper.

Economic Crisis in Sri Lanka:

- The Sri Lankan rupee has fallen.
- Consumer price inflation is at 168%.
- Sri Lanka must repay foreign debt totalling nearly \$7 billion this year (2022) and continue importing essentials from its dwindling dollar account.

Assistance to Sri Lanka:

India:

- India has extended assistance totalling \$ 2.4 billion including:
- A \$400 million RBI currency swap,

- A \$500 million loan deferment,
- Credit lines for importing food, fuel, and medicines.
- Recently, a billion-dollar credit line was finalized.

China:

- China is considering Sri Lanka's recent request for further \$2.5 billion assistance.
- Beijing has extended \$2.8 billion since the outbreak of the pandemic.

How is India's assistance being viewed in Sri Lanka?

- Sri Lanka has thanked India for the timely assistance, but there is growing scepticism in Sri Lankan media over Indian assistance.
- Indian assistance is "being tied" to Indian key infrastructure projects in the island nation in the recent past.
- India is blamed for resorting to "diplomatic blackmail", while Sri Lankan leaders are criticized for trading crucial energy projects for emergency financial assistance from India.

Economy & Agri

IMF Package to Sri Lanka

Economic crisis of Sri Lanka

- Countries forex reserves have reached bottom-low.
- It is facing mounting challenges in the form of unsustainable public debts, low international reserves and is in need of large financing.
- Economy is expected to contract by 8.7% in 2022 and inflation recently exceeded 60%.

IMF Assistance:

- Sri Lanka and the IMF have reached a staff-level agreement to support Sri Lanka's economic policies
 - With a 48-month arrangement under the Extended Fund Facility [EFF] of about \$2.9 bn.
- Staff-level agreements are typically subject to the approval of the IMF management and its executive board, after which the recipient nations get access to funds.

Objectives of Sri Lanka's new fund-supported program:

- To restore macroeconomic stability and debt sustainability
 - While safeguarding financial stability, protecting the vulnerable, and stepping up structural reforms
 - To address corruption vulnerabilities and unlock Sri Lanka's growth potential.

- IMF has also laid out expectations that Sri Lanka must meet, before the IMF management and Executive Board can approve the programme.
 - Raising fiscal revenue to support fiscal consolidation.
 - Implementing major tax reforms. The program aims to reach a primary surplus of 2.3% of GDP by 2025.
 - Introducing cost-recovery based pricing for fuel and electricity to minimise fiscal risks arising from state-owned enterprises.
 - Increasing social spending and improving the coverage and targeting of social safety net programs
 - Restoring price stability through data-driven monetary policy action, fiscal consolidation.
 - Stronger central bank autonomy starting with a new central bank act that allows pursuing a flexible inflation targeting regime.
 - Restoring foreign reserves through market-determined and flexible exchange rates.
 - Healthy and adequately capitalised banking system to safeguard financial stability.
 - Stronger anti-corruption legal framework to reduce corruption through improving fiscal transparency.