

Energy Crisis Concerns

Today we face one of the worst economic crises since independence. Last January, Fitch Ratings downgraded Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) from 'CCC' to 'CC'. The CCC level represents substantial credit risk and a very low margin for safety while CC stands for very high levels of credit risk where default of some kind appears probable. According to the Central Bank report (2021) Sri Lanka recorded a value of -3.5 per cent for the annual economic growth rate in 2020 and the World Bank predicted an expansion of a 3.5 per cent increase in 2021 owing to significant contributions from manufacturing, construction, transport, financial services and real estate activity. However, world political instability related to the Ukraine crisis along with insufficient foreign reserves and foreign earnings blurred these expectations. The Covid-19 pandemic, fall of tourism and agriculture sectors collectively created an economic crisis in Sri Lanka. Given this context, the Government encountered problems with paying for fuel and gas stocks and created long and continuous queues next to filling stations. At this moment, the Government fights most serious battle both in terms of politics and economics.

What Happens Around the World?

Given the scarcity of foreign exchange, high inflation and rising energy cost in Sri Lanka, the ongoing military conflict between Ukraine and Russia aggravates the prevailing Sri Lankan economic crisis. According to the International Energy Agency, Russia is the largest oil exporter of natural gas fuels to the European economy and the US. However, because of the Ukraine crisis, Europe imposed trade sanctions on Russia which affected its fuel supply to the world. The Countries affected by the sanctions turned to the Middle East for supplies, the supply of which the Middle East now monopolise. Hence, the increase in fuel demands has resulted in a price increase. After the Russian invasion of Ukraine on 24 February, the Brent spot price of a crude oil barrel reached USD 105 for the first time since 2014. Sri Lanka lacks priority in its demand for fuel amidst the demands of other more powerful industrial countries. The Sri Lankan Petroleum Corporation has increased fuel prices several times depending on the depreciation of the rupee and the world market price fluctuations. At the time of writing this article, prices for petrol octane 92 have increased from 338 rupees to 420 rupees and for petrol octane 95 from Rs. 373 to Rs. 450 per litre while auto diesel and super diesel prices have hiked to Rs. 400 and Rs. 445 per litre respectively. The higher the energy price is, the sooner the cost of producing and transporting food commodities increases, giving rise to food shortages and inflation.

Community Reactions

Irrespective of the general law of demand that makes higher prices follow lower quantities demanded, people are tensed at the prevailing economic downfall. The demand for fuel and gas shows the speculative nature of demand. Starting from April the long and continuous queues beside filling stations have become a common sight because of the unpredictable nature of fuel supply. Given this context, black markets have come into operation and people are forced to accept the unbearable burden of the cost of living which is rising day by day. Unfortunately, it was recorded that several people waiting in the queues have died on the spot. And the fall of foreign reserves, rupee depreciation, and spiking debts have weakened the economy to an extent where urgent medical supplies and lifesaving drugs for newborns and other patients are unavailable. Poor families are struggling to survive and the potential purchasing power has declined irrespective of the timely paid monthly salaries.

Solutions and Recommendations for Future

The protestors gathered at Galle Face are not planning to dissolve their campaign. However, the appointment of an experienced governor to the central bank and his monetary strategies have subsided the public protests to a certain extent. There are hardly any violent incident reported recently. However, the slogans of the protest remain unchanged as they are anticipating a relief which is a highly uncertain reality in the near future. Given fuel and gas shortages, the existing stocks need sufficient consumption for essential services. Until the central bank elevates the economy to a manageable state, individual and Government expenditure over non-essential goods needs to be deducted. At present people are struggling to find fuel to cook, travel, get electricity and for the smooth functioning of the day to day life. Until the economy recovers, it is more efficient to encourage decisions like zero wastage, work from home, increase and reforming tax structure as the country is almost stuck between survival and recovery at the same time.

***Dilmini Hasintha Abeyrathne is a Research Assistant at the Institute of National Security Studies (INSS), the premier think tank on National Security established under the Ministry of Defence. The opinion expressed is her own and not necessarily reflective of the institute.**

By Dilmini Hasintha Abeyrathne