



## The Role of Political Determinants of Sri Lanka's debt crisis: A Study up to 2024

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### Abstract

This Study examines political impact on contributing to Sri Lanka's debt crisis up to 2024. Sri Lanka has faced a severe debt crisis that reached its peak in recent years. This research focuses on key political factors such as policy decisions, corruption, giant development project and short term and long-term decisions making by political leaders. The research problem is, how did political factors contribute to the debt crisis up to 2024? The main purpose of this writing research paper, critically examine in what ways did political influence led to the debt crisis up to 2024. And also sub purposes are, to identify key political decisions and policies that led to increased public debt, to analyze the impact of governance failure and political instability on economic management, to understand the role of short term and long - term political interests how to influence debt crisis and to highlight lessons for improving political decision-making to prevent future debt crisis. The writing of this article uses qualitative method. Under the qualitative method using literature resources for this. Specially analysis technique based on previous researchers' findings. Through this study, Open economic policy introduced in 1977, Foreign borrowing for development project since 2005 as well as these development projects are loss making project, the rulers did not try to develop Sri Lanka's export economy Government not being able to pay the loan monthly and taking a loan from another place, these findings can be identified regarding how did political factors contribute to the debt crisis up to 2024.

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### 1. Introduction

Sri Lanka has experienced a severe debt crisis that became increasingly serious in the years leading up to 2024, creating widespread economic and social challenges. The crisis resulted in high inflation, shortage of essential goods such as fuel, food, and medicine, rising unemployment, and a sharp decline in living standards. The country's inability to service its external debt led to a loss of international confidence and significant pressure on foreign exchange reserves. While global economic shocks, the covid 19 pandemic, and external market conditions contributed to this situation, internal factors also played a major role. Among these internal factors, political influences were especially significant in shaping economic policy decisions and debt management practices.

Political determinants such as poor policy planning, short -term political interests, weak governance and political instability greatly contributed to the accumulation of unsustainable debt. Key economic decisions, including excessive borrowing, tax cuts, and large – scale infrastructure projects, were often driven by political consideration rather than long-term economic sustainability. In addition, corruption, lack of transparency, informal giant development project, and weak institutional accountability reduce the effectiveness of finance management. Therefore, this study focuses on analyzing the role of political determinants in Sri Lanka's debt crisis up to 2024, and institutional weakness contributed to the crisis and highlighting the importance of responsible political leadership and good governance in preventing future economic instability.

## 2. Research Problem

How did political factors contribute to the debt crisis up to 2024?

## 3. Literature Review

Debt Crisis is a most important contemporary issue in Sri

Lanka. This research, which address the question of How did political factors contribute to the debt crisis up to 2024? identifies two primary theoretical areas that need to be addressed. Accordingly, the literature review can be conducted based on the theoretical fields of political economy and public policy theory.

Title	Year	Writer	Research findings
<i>Analyzing the Root Causes of Sri Lanka's Economic Crisis: A multi-faceted Examination</i>	2024	Saliya. C	This research paper explores key areas that could help improving debt crisis in Sri Lanka. In this research paper explain what are the reasons for debt crisis in Sri Lanka. These are, political and socio factors, covid 19 pandemic, foreign currency shortage, money printing, tax cuts and inflation, corruption, application of law and human rights issues. But mainly discussed through these economic factors for the debt crisis. Political impact not discuss deeply. Such as invest money giant development project.
<i>Factors Effecting Economic Crisis- A Case Study of Sri - Lanka</i>	2024	Chaudhari. G	This research paper has described economic crisis in Sri Lanka. Through this study mention some findings related debt crisis. These are Impunity and corruption, Tax reductions and the production of money, external debt, debt snare, foreign remittances, trouble faced by tourism industry, War between Russian and Ukraine and agricultural crisis. Through this study deeply explain economic factors impact on debt crisis. Political impact has described under the impunity and Corruption but limited.
<i>Political economy perspective on the Current Economic Crisis in Sri Lanka</i>	2022	Cooray. N.S.	The research paper has explained debt crisis in Sri Lanaka through the political economy perspective. This paper mention key findings for debt crisis in Sri Lanka. These are shortage of foreign exchange, unsustainability public debt, acute shortages of essentials goods and services such as food, medicine, energy and gas, and spiraling inflation. In the political sphere, the crisis has led to instability in governance, corrupt political regime and pressure for broader and deeper political reforms. Specially through this study introduced open economy policy impact of Sri Lankan debt crisis.
<i>Paying with Austerity : The Debt Crisis and Restructuring in Sri Lanka</i>	2023	Chandrasekar.C.P&et	The research described key reasons for the debt crisis in Sri Lanka. Specially through this study show well evolution of outstanding debt with bar graphs. And also explain annual trend rates of difference between exports and imports in Sri Lanka with graphs and charts. As well as mention, dollar rise against Sri Lankan rupee. In addition, show the inflation year on year with graphs. Furthermore, describe covid 19 pandemic how to affect for this. Deeply explain about Sri Lanka became heavily dependent on external debt. But not describe deeply poverty political decisions how to create this issue in Sri Lanka.
<i>Economic Research Paper on Sri Lanka Economic Crisis</i>	2025	Rusten. R	This study has explained some factors related debt crisis in Sri Lanka. These are, borrowing loans for invest development project, shortages of food, medicine, inflation and poor governance decision and cut tax. This research mainly focuses to describe, investing money for unsuccessful infrastructure project. One of the major Chinese – financed projects was the Hambantota port. Which was built with roughly \$1.4 billion in China Exim Bank loans. Another broadly project was the Mattala International Air Port. A major portion was funded through Chinese loans worth \$190 million. In reality, it saw almost traffic and became known as the “world’s emptiest airport due to its high maintenance cost and lack of demand. In this way explain deeply invest money for unsuccessful project. But discussed limit other factors. Such as not developing export economy.
<i>Sri Lanka's Economic Policy Response to the Covid -19 Shock</i>	2022	Weerasinghe.N	The research examines increasing debt trap in Sri Lanka. According to this Covid 19 pandemic mainly affected for improving debt crisis in Sri Lanka. In Sri Lanka, even before the pandemic there were already large macroeconomic imbalances in terms of fiscal deficits, government debt, current account deficits and low external reserves. In addition, describe some reasons for this. These are, shortage in foreign exchange, unsustainable external debt levels and fiscal position has worsened further compared to pre pandemic levels. But mainly discuss covid 19 pandemic impact how to related debt crisis and other reasons not discuss depth.

Although many scholars have examined the brain debt crisis in Sri Lanka, there is still limited research specifically addressing how to impact political influence for debt crisis in Sri Lanka. Any research not specify political impact how to relate for this. A literature gap exists when previous studies have not fully explored an important part of a topic. Through all the above-mentioned papers discussed debt crisis in Sri Lanka. But all social economy political factors not examine on one research paper deeply, related debt crisis in Sri Lanka. Otherwise, they have not been discussed in clearly and only

those points have been mentioned or limited discussed. After discussing each of those papers or material, the research gap relevant to this topic has been showed one by one in each paragraph. By identifying this research gap and filling that void, this study will be conducted.

## 4. Method

This study adopts a qualitative research design to explore political determinants of debt crisis in Sri Lanka up to 2024. The methodology that has used for the study is qualitative in

nature and descriptive analysis method has been followed to analyze the gathered data. For the study, only secondary data sources have been used. The theoretical framework has been featured with the political economy and public policy theory. Conceptual wise, the concepts of, accountability and transparency in policy making, fiscal policy and government theory, institutional economics have been applied for the study. The study also employs a comparative analytical framework to examine the differing approaches and interests of political determinant of debt crisis in Sri Lanka up to 2024. The author collects information through the research journals that discuss this problem.

#### 4.1. Data evaluation

The author evaluates the contents of the research journal obtained so that the research data to be discussed can be in accordance with what is desired.

#### 4.2. Data analysis and interpretation

The author analyzes the research data obtained so that it can then be summarized and rewritten in the resulting article. The data analysis technique used by the author is the content analysis technique where the author will analyze the results of research that has been carried out based on suitability with the topic discussed and the time of implementation of the research.

### 5. Results and Discussion

Based on the results of the literature search conducted by the author, there were research journals found that discussed the topic, political determinant of brain drains in Sri Lanka up to 2024. Under the discussion, analyze secondary data and based on secondary data, describe research topic research problem and theoretical frame depth. The research shows that debt crisis is a contemporary issue in Sri Lanka. It is also important and updated research topic current situation. Specially discuss political impact how to relate for this. why does political influence causes debt crisis in Sri Lanka ?, when studying this, should be discussed that under the main key components.

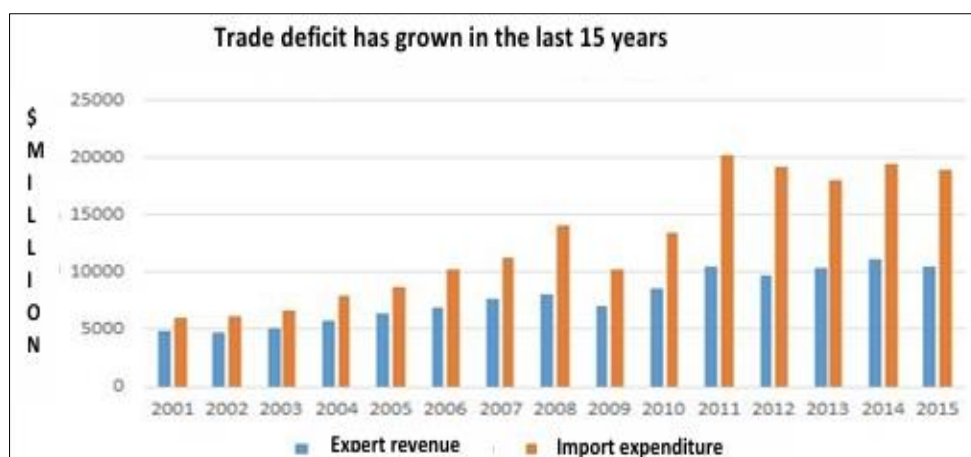
#### Long term causes of debt crisis.

##### (Political and economic policies that influence the credit crisis)

The international economic analysis report released by the international investment bank of New York. The report named the four countries highest probability of debt default in the world. Sri Lanka ranks second among the defaulting nations, according to the report. Sri Lanka's debt crisis has a long history and it has occurred with various government shifts

- Open economic policy introduced in 1977.
- Foreign borrowing for development project since 2005 as well as these development projects are loss making project. (High way, infrastructure development, other projects)
- The rulers did not try to develop Sri Lanka's export economy.
- Spending a lot of money to pay salaries for public service. And also, more employees in Sri Lanka's public service.( about 15,000,00 employees and also many employees are party members)
- Government not being able to pay the loan monthly, taking a loan from another place. (Sometimes loans are taken at higher interest rates)
- Budget deficits are huge expenses that every government.
- Financial scams by every government. Ex: Bond fraud

Introduction with the open economy policy, by 1994 the total public debt was 550 million rupees. Although, open economic policy is a good concept. We can start international relations from it. But open economic policy was a strong reason for the debt crisis (Cooray N.S, 2022)<sup>[5]</sup>. Because Sri Lanka's import expenditure has doubled more than its export income (Chandrasekhar.C.P& et, 2023)<sup>[3]</sup>. Limit imports and promote exports is best solution for that. It is the government's responsibility. However, every government has failed to promote exports by 2023.



Another reason for debt crisis was the huge budget deficit. Every government did this. From 1948 to 1977 continue this at low level. But increased after 1977. The government that came to power in 2015 worked to reduce the budget deficit. They had increased to 4.6 to 3.5 according to the experts.

Another cause of credit crunch is excessive borrowing for

infrastructure development and development projects. However, development project not enough income to cover their daily expenses (Chaudhari.G, 2024)<sup>[4]</sup>.

Ex: Hambantota port \$ million 550, Mattala airport \$ million 275, Norochcholle power station \$million 273, Moragahakanda water project Rs million 2500

There is a trend towards china in Sri Lanka's borrowing. Ex:

Colombo- Katunayake high way, Colombo south high way road, Mattala airport, Hambantota harbor. Sri Lanka’s borrowing from Exim bank in China for this (Rusten.R, 2025)<sup>[8]</sup>. By the end of last year, tele communication regulatory commission had to pay a loan of Rs million 72 for the nelum kuluna project. These development projects were a major factor in looking Sri Lanka in a debt trap. “Development projects do not generate revenue and most of them are just white elephants. Ex: Moragahakanda water project”. (Hewawitharana.I)

Another factor for the debt crisis is the unaffordable provision of government jobs without qualifications for political motives. Public service has expanded so widely. It is a big problem for paying salary. Every government has given jobs to their party members without qualifications. About 15,000,00 are working in public sector by 2023. But half of it is considered (750,000) surplus. Public servants in Sri Lanka are one in sixteen people. But India is 1 in 177 people. Sri Lanka is the most public servant’s country in south Asia. Therefore, public sector is a loss-making sector.

Another reason for the debt crisis is taking loans at high interest rates and when it is difficult to pay the loan installments, taking a loan from another place (Chaudhari.G, 2024)<sup>[4]</sup>. Many say that Sri Lanka is following a roll in

resolving the debt crisis. When the Sri Lankan government find it difficult to pay the loan installments, it takes a loan from another country to settle the debt (Weerasinghe.N, 2022)<sup>[10]</sup>. Ex: Sri Lanka 250 \$ million from Bangladesh bank, 400 \$ million from the reserve bank of India, 200 \$ million from development bank in China (at the end of 2021). This shows how the assistance of another country is help to cover the loan installments. Corona pandemic is a short-term cause for the debt crisis.

**The economic consequences of the debt crisis.**

According to the information web site of Bloomberg an economic and financial analyst company, Sri Lanka is now number one in the Asia pacific region in terms of the probability of defaulting on its debt. There are several economic problems, arisen due to this.

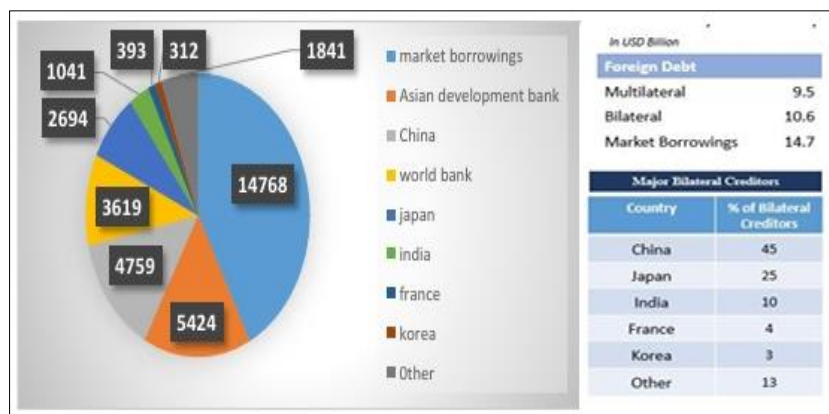
- Limitations of imports in Sri Lanka. (Because foreign reserves not enough in Sri Lanka)
- Sri Lankan development projects for renting to other countries.
- People are suffering because increase in the price of essential things due to the debt crisis.
- The rise of the dollar against the rupee.



The rise of the dollar against the rupee a big threat for debt crisis (Chandrasekahar.C.P & et, 2023). The rupee has strengthened slightly against the dollar since March 2023 due to the receipt of IMF loans. But Sri Lanka’s risk has not gone away. It should not be forgotten that Thailand’s currency devalued in 1994 due to an unnecessary outflow of dollars from that capital rich country. Thailand’s central bank spent US dollar 25 billion to control the collapse of the country’s currency. but Thailand was unable to stop the currency from

collapsing. From 2015 to 2019, the total amount of foreign debt was 12 billion US dollars and this amount of debt was obtained of a high interest rate of 5%, 7% percent. It has created a dangerous situation for the economy. In the face of these economic crisis the county’s development projects were leased to other countries to pay foreign debt installments. Ex: Hambantota port leased to china for 99 years (Rusten.R, 2025)<sup>[8]</sup>.

**By the end of April 2022, total outstanding foreign debt of the government was USD 34.8 billion**



In addition to this, Sri Lanka has taken many loans not only from abroad but also domestically from the government of Sri Lanka. There, the government has received money from the pension fund and employee provident funds several times in the past periods.

## 6. Conclusion and suggestions

When discuss Sri Lanka's debt crisis, it has a long history. The main hope is introducing open economic policy, send Sri Lankan product to the foreign market and earn foreign exchange. But imports increased year by year and exports decreased year by year in Sri Lanka. Also, lot of money used for the big development projects. Specially, in these development projects not to be earn income but a lot of money has been spent for that. When checking financial estimates related to these development projects, some projects have problems of financial transparency. Opinions have been formed, they show a higher cost than the cost of the respective project Also every government has expanded the public service and increased the number of people dependent on the government. Often, they are giving appointment to party members for voting. That is a reason for debt crisis. Every government do this. These proposals are important for this debt crisis. Limit imports and developing export economy. There is the tourism, industry and releasing creatively local products for the foreign market like this Ceylon tea products, jak chips, drumstick powder. We can earn dollars through this. When using money for development projects, if it is only possible to earn income permanently, start relevant project. If not cancel that project. Instead of excessive partisan appointments in the public service, try to build up economy, agriculture, industrial field, inventions fields in Sri Lanka. Ana also should be created new jobs from it. Mainly the number of people who are dependent on the government should be reduced and the number of those who generate income for the government should be increased. In addition, cutting rulers, all the excessive and unnecessary expenses for living luxurious lives. Every government should use the money frugally and with financial discipline and rulers must do maximum justice to the people's tax money. As a whole, Sri Lanka's debt crisis based on the economic and political policies implemented by the governments came to power from time to time and we can conclude the political consequences have directly laid the foundation for these debt crises according to this article.

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