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As in 2017, the political landscape in Sri Lanka in 2018 appeared to be characterised by constant difficulty with democracy. First, through an unexpected landslide electoral victory, the former President Mahinda Rajapaksa was back on the political stage and he was able to challenge the governing coalition and its leaders. Second, the outbreak of a deep constitutional crisis caused – albeit for a short time – the break-up of the governing coalition and the appointment of Rajapaksa as the new Prime Minister. As far as foreign policy is concerned, 2018 witnessed the continuation of Sri Lanka acting as a «tightrope walker», striving to maintain its metaphorical balance between India and China. Moreover, the year under review saw the government's efforts to develop new ties with Asian countries such as Japan, Pakistan and Iran. In addition, Sri Lanka developed new links with international economic and security organisations in order to pursue its goal of becoming a significant political and economic hub in the Indian Ocean.

At economic level, the year under review saw a further weakening in economic performances. There were also some moderately positive outcomes (the government was able to keep the public finances in order and to increase state revenues, and positive steps in the reform process towards increased revenue-based fiscal consolidation were recorded). However, these positives outcomes were put at risk by the worsening of the economic trends, caused by the uncertainty and instability due to the constitutional crisis of the last months of the year.

1. Introduction

In 2018, the situation in Sri Lanka was dominated by the unexpected comeback of Mahinda Rajapaksa and by a deep political and constitutional crisis which plunged the island state into political instability and uncertainty.

Mahinda Rajapaksa, former president of Sri Lanka from 2005 to 2015, had seen his authority and popularity rocket when the separatist Liberation Tigers of Tamil Eelam (LTTE) were defeated in 2009, bringing to an end a long-lasting civil war. The end of the civil-war was followed by credible allegations of human rights violations and war crimes committed by the Lankan army, and by accusations to Rajapaksa of authoritarianism, corruption, disregard for the rule of law, and of efforts to create a political dynasty. Eventually, Rajapaksa was defeated in the 2015 presidential election and left office. He then attempted to conquer the position of prime

minister in the parliamentary elections of that same year, but his party, the United People's Freedom Alliance was defeated. From 2015 to 2018, however, and with mixed fortunes, as Member of Parliament for Kurunegala District, Mahinda Rajapaksa was the leader of the opposition. As shown below, in 2018, an unexpected landslide victory at the Local Authorities elections allowed him to return to the political stage and gave him a new political impetus and the opportunity to challenge the ruling coalition.

The constitutional crisis took place during the last months of the year and was caused by the surprising move of President Maithripala Sirisena when he sacked Prime Minister Ranil Wickremesinghe, who had been the main partner of his own governing coalition from 2015, and replaced him with former President Rajapaksa, the leader of the opposition. In the space of little more than seven weeks of chaos and uncertainty, the coalition government – already weakened by long-lasting internal tensions and divisions – fell apart, and the stability and unity of the Sri Lankan political system was put at risk.

The year under review witnessed Sri Lanka's continuing efforts to maintain its balance between India and China, as well as the developing of new links with Japan, Pakistan and Iran. Moreover, 2018 saw Sri Lanka further its involvement with international economic and security institutions.

As far as Sri Lankan economic developments are concerned, the year under review saw a weakening in economic performance. Moreover, some moderately positive trends were also put at risk in the last months of the year by the political instability and uncertainty caused by the crisis.

The remainder of this article will proceed as follows. First, the dramatic domestic developments will be analysed. Second, the analysis will dwell on Sri Lankan foreign policy. Sri Lanka's ties with India and with China, as well as its relations with Japan, Pakistan and Iran will be analysed. Then, attention will be given to the Sri Lankan involvement with international economic and security organisations. Finally, the trends of the Sri Lankan economy, and the bumpy route towards the 2019 budget, will be assessed.

2. Domestic Politics

The two most important political developments during 2018 were, first, the former president and island «strong man» Mahinda Rajapaksa's comeback. Rajapaksa, who practically all analysts considered to be unable to participate in political activity, quite unexpectedly put up a vigorous and successful assault against the ruling coalition. The second development was represented by the political crisis that took place in the last months of the year. This crisis was so unexpected and deep that it put the stability and unity of the Sri Lankan political system at risk.

2.1. Mahinda Rajapaksa's unexpected comeback

At the beginning of 2018, the Sri Lankan population went to polls for local authority elections. Repeatedly delayed for a long time, these local elections were the first island-wide polls since the ruling coalition had taken office in 2015.¹

The electoral campaign that preceded the elections was dominated by former President Mahinda Rajapaksa and his newly-established political party, the *People's Front* (Sri Lanka Podujana Peramuna – SLPP).² Through public statements and a violent rhetoric, Rajapaksa emphasised the total failure of the Unity Government to make reforms: the inability of the government to contain the cost of living and the increases in taxation, the inability of the government to act against corruption, the failure to privatise state assets and the reduction of welfare for poor, retired soldiers.³ The controversial issue of the Central Bank Bond Scam was used by Rajapaksa to attack the Prime Minister and the ruling coalition.⁴ In contrast, the two main ruling coalition partners – President Maithripala Sirisena's Sri Lanka Freedom Party (SLFP) and Prime Minister Ranil Wickremesinghe's United National Party (UNP) – campaigned separately, and sometimes even campaigned against each other.⁵ They limited themselves to re-affirming their already widely publicised (but not yet fully implemented) government promises: such as the abolition of the Executive Presidency, anti-corruption measures, and a new constitution and the devolution of power. They blamed each other for the failure to carry through the reforms.⁶ Their campaign worsened when the President, Maithripala Sirisena, began to criticise both the Prime Minister and his government for the Central Bank Bond Scam and for the unsuccessful implementations of investigations into the alleged corruption of various figures of Central Bank governance body.⁷ This

1. Fabio Leone, 'Sri Lanka 2017: The Uncertain Road of the «Yahapalayanaya» Government', *Asia Maior* 2017, pp. 332-335.

2. Previously, it was a minor political party known as the Sri Lanka National Front (SLNF) and Our Sri Lanka Freedom Front (OSLFF). The SLPP was formed by breakaway members of Sirisena's party in 2016 and became the home for members of the SLFP who were loyal to Rajapaksa.

3. Shihar Aneez & Ranga Sirilal, 'Party Backed by Sri Lanka's Ex-president Eyes Big Victory in Local Polls', *Reuters*, 11 February 2018.

4. The Central Bank Bond Scam concerned the manipulation of the government's treasury bonds through inside trading, which resulted in a loss of US\$ 72.44 million for the treasury in 2015. Namini Wijedasa & Gautam Sen, 'Lanka Local Polls Crucial for Sirisena Govt', *The Hindu-Business Line*, 6 February 2018.

5. Shihar Aneez, 'Sri Lankans to Vote in Local Elections in Key Test for Ruling Coalition', *Reuters*, 9 February 2018.

6. *Ibid.*

7. Eshan Jayawardena & Punsara Amarasinghe, 'The Winds of Change in Sri Lanka? Rajapaksa's Charisma and Foreign Factors in Sri Lankan Politics', *South Asia @ LSE*, 13 March 2018.

showed the deep contrasts within the coalition government and alienated their voters.

On 10 February, over 15 million eligible voters went to the polls to elect 8,293 members for 341 local bodies – 24 municipal councils, 41 urban councils and 276 Pradeshiya Sabhas or divisional councils (namely, the legislative bodies that preside over the third-tier municipalities in the country).⁸ In the following days, the results of the local elections were announced. It was a political earthquake. Rajapaksa and his party had obtained a landslide victory.⁹ Rajapaksa's SLPP obtained 44.6% of the votes, the highest number of seats, and the majority of the local councils across the country: it gained power in 249 local governing bodies out of a total of 340. Wickremesinghe's party, the UNP, obtained an average of 32.63% of the votes and held 42 local bodies. But President Sirisena's party, the SLFP, experienced a crushing defeat.¹⁰ The SLFP, together with their allies in United People's Freedom Alliance (UPFA) obtained an average of only 13.4% of the votes and won only 10 local bodies (see Table 1).

Table 1 - Summary of the 2018 Local Authorities elections

Party	Number of votes	Percentage (%)	Members	LG Bodies
Sri Lanka Podujana Peramuna (SLPP)	4,941,952	44.6%	3,369	231
United National Front (UNP)	3,612,259	32.63%	2,385	34
United People's Freedom Alliance (UPFA)	989,821	8.94%	674	2
People's Liberation Front	693,875	6.27%	431	
Sri Lanka Freedom Party (SLFP)	491,835	4.44%	358	7
Janatha Vimukthi Peramuna (JVP)	693,875	6.27%	431	0
Ilankai Tamil Arasu Kadchi (ITAK)	339,675	3.07%	407	41

Sources: Election Commission of Sri Lanka; table adapted from 'Local Authorities elections results -2018', *Adaderana*, 16 February 2018; and 'Sri Lanka: How to read the local government election results', *Sri Lanka Brief*, 12 February 2018.

According to analysts, three main factors seem to have played an important role in these electoral outcomes. First, Rajapaksa was able to transform the local elections into a real *referendum* on the coalition

8. This was also the first election under the mixed electoral system: 60% of members were elected using first-past-the-post voting system (FPTP) and the remaining 40% through closed list proportional representation. Moreover, these elections were marked by guaranteeing 25% representation of women in each council. 'Sri Lanka Goes to Polls in Crucial Vote', *The Indian Express*, 10 February 2018.

9. The voter turnout was around 65%. Manjula Fernando, 'Local Government Polls: Voter Turnout over 65%', *The Sunday Observer*, 11 February 2018.

10. Eshan Jayawardena & Punsara Amarasinghe, 'The Winds of Change in Sri Lanka? Rajapaksa's Charisma and Foreign Factors in Sri Lankan Politics'.

government.¹¹ In addition, he was able to become the central figure of the electoral campaign. Moreover, Rajapaksa still enjoyed a broad electoral appeal and his type of Sinhalese Buddhist nationalism reverberated within the bulk of the ethnic Sinhalese majority community.¹² Second, Rajapaksa's party, the SLPP, was also able to gain votes from outside its traditional electoral bases, whereas Wickremesinghe's UNP was not able to do so (it was voted mainly by the urban areas and the ethnically mixed areas).¹³ Third, many voters abstained from going to the polls or voted for alternative parties or independent groups in protest. On the whole, the 2018 local election outcomes showed a clear erosion of public support and confidence in the ruling unity government, while Rajapaksa's electoral base had held up very well during these three years.¹⁴

Finally, it is worth noting that the 2018 local elections were the quietest and most peaceful elections ever held in Sri Lanka. Naturally, there were episodes of election and post-election violence (mainly between the SLPP and the UNP/SLFP supporters or between Sinhala nationalists and Tamil nationalists). But, on the whole, the level of violence was very low.¹⁵

2.2. *The drama of the Unity Government coalition*

The local election outcomes produced an unexpected political storm in the island state. The disastrous election results further deepened the crisis between the two ruling coalition partners, which was already under way.

11. Shihar Aneez, 'Sri Lankans to Vote in Local Elections in Key Test for Ruling Coalition'; Shamindra Ferdinando, 'LG Poll Really a «Referendum» on Yahapalana Govt., Says JO', *The Island*, 18 January 2018.

12. About three-quarters of Sri Lankans are ethnic Sinhalese, and most of them are Buddhist. Taylor Dibbert, 'Sri Lanka's Homegrown Crisis', *Foreign Policy*, 5 November 2018; Neil DeVotta, Sumit Ganguly, 'Asia's Oldest Democracy Takes a Hit', *Foreign Policy*, November 2018.

13. For example, the Colombo Municipal Council that has around 400,000 voters of whom about 60% belong to ethnic minorities, voted 46% UNP and 21% SLPP. S.W.R. de A. Samarasinghe, 'Ups and Downs of Sri Lankan Politics and Looming Political Uncertainty', *The Island*, 12 February 2018.

14. As has been highlighted, Rajapaksa's share of the vote showed little fluctuation. In the presidential election of 2015, Rajapaksa polled 47.6%; in the 2015 parliamentary election, his party (UPFA) polled 42.7%. Hambantota, Moneragala, Matara, Ratnapura and Galle (which Rajapaksa's UPFA obtained more than 55% in the 2015 presidential election and more than 50% in the 2015 parliamentary election) voted overwhelmingly for the SLPP in the 2018 local elections. S.W.R. de A. Samarasinghe, 'Ups and Downs of Sri Lankan Politics and Looming Political Uncertainty'.

15. This was confirmed by the Chairman of the Election Commission, Mahinda Deshapriya, but also by associations and NGOs operating on the territory. Uditha Kumarasinghe & Maneshka Borham, 'Polls, One of the Most Peaceful - Watchdog Groups', *Sunday Observer*, 11 February 2018.

The electoral results did nothing but worsen an already precarious situation. In recent years, the coalition government formed in 2015 had become increasingly unpopular and wildly dysfunctional.¹⁶ It had been continually subject to tensions and divisions. In particular, the Sirisena-Wickremesinghe relationship fell apart, as the two failed to get along.¹⁷ The massive corruption among Wickremesinghe's associates was a permanent source of tension between the coalition partners. A further source of tension was the class division between the urban, liberal, pro-Western attitude of Prime Minister and his circle, and the rural roots of President Sirisena.¹⁸ Moreover, the coalition government's inability to implement key parts of its agenda (from anti-corruption to improved governance, and economic and constitutional reform), its disregard for the popular demands for better economic governance, and its lazy attitude to post-civil war reconciliation reforms helped to further erode popular support for the government.¹⁹

After announcing the results of the local elections, President Sirisena decided to take the initiative and backed a no-confidence motion against the government. The motion took place on 4 April, but the government survived. The government won the support of 122 members of the 225-member Parliament, with 76 voting against him. The only result that Sirisena's move obtained was that the SLFP's share in the coalition was weakened: 16 members of parliament from Sirisena's party (most of them ministers) voted in favour of the no-confidence motion. After the vote, they decided to resign their portfolios and to sit with the opposition.²⁰

The defeat of the no-confidence motion seemed to sanction a period of truce. But it was a short-lived truce. Soon, the tension between ruling coalition partners began to rise again. In June, the *New York Times* published an article on alleged Chinese bribery in the 2015 presidential elections.²¹ The main allegation in this article was that Rajapaksa had received US\$ 7.6 million as campaign contributions from the *China Harbour Co.* during the 2015 presidential elections. The allegations made in the article triggered a new storm within the ruling coalition. Prime Minister Wickremesinghe and his party started a protest campaign against Rajapaksa and his *entourage*. But, once again, the ruling coalition partners began to attack and complain about each other. The situation worsened when the talks between President Sirisena and Rajapaksa were made public. The meetings were aimed

16. Taylor Dibbert, 'Sri Lanka's Homegrown Crisis'.

17. Taylor Dibbert, 'Sri Lankan democracy on the rocks', *East Asia Forum*, 15 February 2019.

18. Neil DeVotta, 'Sri Lanka's crisis of democracy', *East Asia Forum*, 3 December 2018.

19. Taylor Dibbert, 'Sri Lankan democracy on the rocks'.

20. Shihar Aneez & Ranga Sirilal, 'Sri Lankan PM Survives No Confidence Vote', *Reuters*, 4 April 2018.

21. Maria Abi-Habib, 'How China Got Sri Lanka to Cough up a Port', *The New York Times*, 25 June 2018.

at probing the possibility of forming a possible «grand coalition» or a possible «caretaker grand coalition» (with the participation of Rajapaksa). In addition, these meetings were followed by the SLFP steering committee meeting to discuss the new scenarios of a possible caretaker government. These meetings increased the tension between the two ruling coalition partners.

The Prime Minister accused President Sirisena and his party of putting the government at risk. Shortly afterwards, the situation worsened further when President Sirisena declared that an assassination plot against him had been discovered and that Prime Minister Wickremesinghe had not lifted a finger to prevent it. Sirisena's declaration took place on 16 October, during the cabinet meeting. Sirisena blamed India's Research and Analysis Wing (RAW) – the Indian intelligence agency – for the assassination plot. However, he admitted that the Indian premier, Narendra Modi, had not been aware of the plot.²² Sirisena's disclosure was explosive for two reasons. First, it came a few days before Prime Minister Wickremesinghe's scheduled visit to India, and his meeting with Mr. Modi on key India-assisted projects in Sri Lanka. Second, the disclosure occurred during a cabinet meeting in which a decision on India-led development projects was on the agenda. Sirisena was opposed to Indian involvement in upgrading the east container terminal of Colombo Port – a project that New Delhi had been keen to take up.²³ Prime Minister Wickremesinghe declared that Sri Lanka had promised New Delhi that it would collaborate on the project.

At the end of October, the political crisis escalated further. On 26 October, in an unexpected move, President Sirisena dismissed Prime Minister Wickremesinghe and appointed Rajapaksa as the new Prime Minister. The following day, Rajapaksa was sworn in as Prime Minister and appointed a new cabinet.²⁴ The country was plunged into chaos: numerous protests and episodes of violence backed by Rajapaksa and Wickremesinghe supporters took place on the streets. Wickremesinghe (who was still installed in the prime minister's official residence, Temple Trees) insisted that he was still the premier and declared that he could only be dismissed by a vote of parliament. Moreover, he also called for an emergency session of parliament, so he could prove that he had a majority.²⁵ The parliament was urgently convened.

Through a second unexpected move, President Sirisena suspended parliament (until 16 November), leaving the two men both claiming to be

22. Meera Srinivasan, 'Sri Lankan President Sirisena Alleges that RAW is Plotting his Assassination', *The Hindu*, 16 October 2018.

23. *Ibid.*

24. Norman Palihawadana & Shamindra Ferdinando, 'MR Sworn in as PM Vows to Overcome Challenges', *The Island*, 27 October 2018.

25. Amy Kazmin, 'Sri Lanka's President Sacks One-time Ally as Prime Minister', *The Financial Times*, 27 October 2018.

prime minister. At the same time, he called for new elections for January 2019.²⁶ The UNP, Tamil National Alliance and other forces loyal to Wickremesinghe appealed to the Supreme Court against the parliamentary suspension (12 November).²⁷ On 13 November, Sri Lanka's Supreme Court suspended the president's decision to dissolve parliament, and declared the need for new elections.²⁸ Re-assured by the high court's decision, the forces loyal to Wickremesinghe moved a motion of no-confidence against Prime Minister Rajapaksa. On 14 November, the motion took place and passed with the backing of 122 of the 225 members of parliament.²⁹

Speaker of Parliament Karu Jayasuriya quickly declared that the country was without a Prime Minister and a government. Rajapaksa's defeat brought the Sri Lankan political institutions to a standstill. President Sirisena hastened to declare that he refused to accept the no-confidence vote, as it appeared to have ignored the constitution, parliamentary procedure and tradition. Not only that, but he urged the speaker of the parliament and leaders of some political parties to hold a new no-confidence motion and to abandon their position that the appointment of Rajapaksa as prime minister had been unconstitutional.³⁰ Meanwhile, Rajapaksa remained in office with the president's backing.

On 16 November, a second no-confidence vote took place in parliament. Once again, Rajapaksa lost. The crisis seemed to be becoming a farce when the president rejected the outcome of the second no-confidence vote and urged the political forces to hold a third motion of a no-confidence.³¹ Sirisena was probably still sure that Rajapaksa would be able to obtain a majority in parliament. Meanwhile, Premier Rajapaksa refused to resign. Once again, 122 legislators loyal to Wickremesinghe appealed to the Appeal Court against Rajapaksa's authority to hold office. On 4 December, the Court issued an interim order that restrained Rajapaksa from functioning as the Prime Minister and 49 others from functioning

26. Dharisha Bastians & Maria Abi-Habib, 'Sri Lanka's President Suspends Parliament, Escalating Political Crisis', *The New York Times*, 27 October 2018.

27. 'Political Parties in Sri Lanka File Petitions against Parliament Dissolution', *The Statesman*, 12 November 2018.

28. Simon Mundy & Chathuri Dissanayake, 'Sri Lanka Supreme Court Weighs into Constitutional Crisis', *The Financial Times*, 13 November 2018; 'Sri Lanka Crisis: Supreme Court Suspends Dissolution of Parliament', *BBC News*, 13 November 2018; 'Sri Lanka Supreme Court Overturns Dissolution of Parliament', *Al Jazeera*, 13 November 2018.

29. Shihar Aneez, 'Sri Lanka, without Prime Minister and Cabinet, Grinds to Political Halt', *Reuters*, 15 November 2018.

30. Shihar Aneez & Ranga Sirilal, 'Sri Lanka President Seeks Fresh No-confidence Motion against New PM', *Reuters*, 15 November 2018.

31. Ranga Sirilal & Shihar Aneez, 'Sri Lanka President Calls Third Vote on No-confidence Motion against Premier', *Reuters*, 18 November 2018.

as ministers.³² Rajapaksa appealed against the lower court's interim order, but the Supreme Court rejected his appeal. A vote of confidence took place in Parliament on 12 December, in a situation of great uncertainty on its outcome. However, Wickremesinghe spectacularly won the vote of confidence with the backing of 177 votes to none.³³ On 15 December, Rajapaksa resigned. The following day, Wickremesinghe was re-instated as prime minister by President Sirisena. Eventually, the political stalemate was broken in time to avoid an imminent government shutdown.³⁴

At the time of writing, a new United National Party-dominated cabinet has been sworn in Parliament, and Rajapaksa now leads the parliamentary opposition (Wickremesinghe commands 103 members, and Rajapaksa commands 100).³⁵ Wickremesinghe and his United National Party have emerged stronger. In contrast, Sirisena's reputation has been irreparably damaged. As some analysts have highlighted, not only were the President and the Prime Minister not reconciled, but Sirisena would have no real chance to gain a second term as president.³⁶ Rajapaksa was hurt as well, but he and his party remained a political actor to be reckoned with. He and his associates were anxious to return to power and in order to reach this goal they could promote misinformation, chaos and hinder the government's agenda.³⁷

However, the seven weeks of chaos and uncertainty can be also considered as a significant political test for Sri Lanka's institutions (including the Supreme Court, the Court of Appeal and civil society).³⁸ These seem to have held up well, consistently driving back Sirisena's attacks.³⁹ Moreover, it is noteworthy that the military and security apparatus (which was under Sirisena's direct control and which has always considered Rajapaksa as an ally) did not intervene in the constitutional crisis.⁴⁰

The frantic events of the crisis and President Sirisena's behaviour astonished not only the long-time international observers of Sri Lanka,

32. Umesh Moramudali, 'The Deep Roots of Sri Lanka's Political Crisis', *The Diplomat*, 11 December 2018; Ranga Sirilal, 'Sri Lanka Court Bars Rajapaksa from Office, Disputed PM to Appeal', *Reuters*, 3 December 2018.

33. Shihar Aneez & Ranga Sirilal, 'Sri Lanka Parliament Passes Confidence Vote Backing Ousted PM', *Reuters*, 12 December 2018.

34. Shihar Aneez & Ranga Sirilal, 'Sri Lanka PM Rajapaksa Resigns amid Government Shutdown Fears', *Reuters*, 15 December 2018.

35. Neil DeVotta & Sumit Ganguly, 'The Scarring of Democracy in Sri Lanka', *US News*, 8 November 2018.

36. Taylor Dibbert, 'Sri Lankan democracy on the rocks'.

37. *Ibid.*

38. *Ibid.*

39. *Ibid.*

40. Anubhav Gupta, 'A South Asian «Game of Thrones»: Behind Sri Lanka's Political Crisis', *Asia Society*, 4 December 2018; Neil DeVotta and Sumit Ganguly, 'The Scarring of Democracy in Sri Lanka'.

but even supporters and members of political parties involved in the dispute. In particular, the island state was shocked by the collusion between Sirisena and Rajapaksa. As was highlighted, the stunning deal between two politicians was comparable to Donald Trump asking the Hillary Clinton to be his vice-president after the 2016 US election.⁴¹ So what led to Sirisena's decision? What were the reasons that triggered the crisis? Just two days after the shocking replacement of Wickremesinghe, Sirisena issued a public statement in which he gave two reasons for his decision to oust the Prime Minister. First, he argued that an assassination plot against him had been planned, and implied that Wickremesinghe's cabinet had blocked a real investigation into the issue. Moreover, he argued that India was indirectly involved in the assassination plot. Second, Sirisena also argued that he had replaced Wickremesinghe because of the corruption accusations involving the then prime minister. In particular, he cited the serious Central Bank Bond Scam, involving the central bank and its governor, who had been appointed by Wickremesinghe. Nevertheless, as many experts highlighted, these reasons proved to be unsatisfactory. Sirisena has yet to show credible evidence of the assassination plot accusations.⁴² Moreover, the Bond Scam brought legitimate criticism of Wickremesinghe, placing him in a bad light, but the accusation did not seem sufficient to oust him, as prime minister, from office.⁴³

On the contrary, the real reason behind Sirisena's decisions and actions seems to be mainly political. Many analysts argued that Sirisena actions were related to the president's intention of resolving a deepening political dispute between himself and Prime Minister Wickremesinghe. Following the 2015 elections, the ruling coalition had become more fragile with everyday that passed. Disagreements on a wide range of policy issues developed so harshly that conflicts between ruling partners became public.⁴⁴ Political scientist and scholar Neil DeVotta ascribed the shocking crisis developments to the president's willingness to make a deal to secure his own political future: Sirisena yearned for a second presidential term.⁴⁵ In particular, Sirisena does not have a political base and he saw the alliance with Rajapaksa and with the opposition as the most likely way to secure power in the next presidential elections.⁴⁶ It was no coincidence that, as was highlighted, Rajapaksa called for parliamentary elections in his inaugural

41. Anubhav Gupta, 'A South Asian «Games of Thrones»: Behind Sri Lanka's Political Crisis'.

42. *Ibid.*

43. *Ibid.*

44. *Ibid.* See, also, Yayadeva Uyangoda, 'From Uncertainty to Crisis', *The Hindu*, 30 October 2018.

45. Neil DeVotta, 'Sri Lanka's Crisis of Democracy', *East Asia Forum*, 3 December 2018.

46. Taylor Dibbert, 'Sri Lankan democracy on the rocks'.

speech as the incoming PM, because this showed that both he and President Sirisena intended to obtain power beyond the current term.⁴⁷ Moreover, DeVotta argued that, in joining his forces with Rajapaksa, Sirisena saw a way of strengthening his popularity when they decided to run for election (Rajapaksa as prime minister and Sirisena as president for another term).⁴⁸ The minorities and the UNP supporters, who had voted for Sirisena in 2015, were not his base; many SLFP supporters were angry after Sirisena had gone over to the opposition and defeated Rajapaksa in the last presidential election.⁴⁹ Moreover, Rajapaksa enjoyed the majority of Sri Lanka's Buddhist support. In his turn, Rajapaksa found the collusion with Sirisena useful for two reasons: first, he was scared that the charges for crimes of corruption would block him before the election. For this reason, Rajapaksa saw the ousting of Wickremesinghe as an attractive opportunity. Second, Rajapaksa and his new party had performed well at the local elections, which had increased confidence in its political potential. He could not run for a third presidential term, but he could dominate politics again as prime minister.⁵⁰

Moreover, it is worth noting that Wickremesinghe also had his own agenda, in contrast to that of Sirisena,⁵¹ and this may have contributed to indirectly escalate the crisis. Wickremesinghe had long yearned for the presidency, and thought that he might prevail at the next election. Although considered an élitist and indifferent to rural and grassroots concerns, the ongoing crisis gives him the opportunity to disguise such shortcomings and to present himself as a new defender of democracy.⁵²

3. Foreign Policy

In 2018, the two main foreign policy strategic goals and the main strategies for achieving them remained unchanged. Sri Lanka continued its efforts to pursue, maintain and strengthen good, well-balanced relations with the rest of the world and its regional actors, as well as to promote its own economic development.⁵³ However, during 2018, new achievements connected with the Sri Lankan's strategy of regional security emerged.⁵⁴

47. Anubhav Gupta, 'A South Asian «Games of Thrones»: Behind Sri Lanka's Political Crisis'.

48. Neil DeVotta, 'Sri Lanka's Crisis of Democracy'.

49. *Ibid.*

50. *Ibid.*

51. *Ibid.*

52. *Ibid.*

53. Fabio Leone, 'Sri Lanka 2017: The Uncertain Road of the «Yahapalayanaya» Government'.

54. Barana Waidyatilake, 'Sri Lanka's Strategy for Regional Security', *The Diplomat*, 19 July 2018.

3.1. Still «between the devil and the deep blue sea» of India and China

In the year under review, the strengthening of the political and economic relations between Sri Lanka and India continued. In the early part of the year, India's commitment to strengthening bilateral economic relations between the two countries was disrupted by the High Commissioner of India for Sri Lanka, Taranjit Singh Sandhu. During a meeting on Indian and Sri Lankan relations in the light of New Delhi's «First Neighbourhood Policy», the Indian envoy stressed India's commitment of approximately US\$ 2.9 billion in subsidised loans to Sri Lanka.⁵⁵ In January, Sri Lanka and India signed an agreement for the financing of development projects. The agreement concerned the opening of a line of credit from the Export-Import Bank of India (Exim Bank) granting aid for US\$ 45.27 million as well as the help of the Indian government for the development of the Kankesanthurai (KKS) port as a commercial port.⁵⁶ The agreement was followed by a Memorandum of Understanding (MoU) to facilitate high-speed direct Internet connectivity between the two countries. In October, in spite of the political turmoil and the fact that President Sirisena had accused India of plotting against him, Prime Minister Wickremesinghe paid an official visit to India. Wide-ranging talks between the two parties on co-operation and development aid took place. Sri Lanka also enhanced bilateral defence co-operation with India. In January, the fifth Indo-Sri Lankan Defence Dialogue was held in New Delhi. The Sri Lankan delegation led by the Secretary to the Ministry of Defence, Mr. Kapila Waidyaratne, participated at the event. Indo-Sri Lankan Defence Dialogue reviewed a range of defence co-operation measures between the two countries, while paying attention to other areas of interest as well.⁵⁷ Later, in July, the annual «Mitra Shakti joint military exercise» took place. It was the third Indo-Sri Lankan Joint Training Exercise «Mitra Shakti» and it focused on counter-terrorism and insurgency.⁵⁸ It was followed in September by the sixth edition of SLINEX, a bi-lateral Naval Exercise between India and Sri Lanka. It took place at Trincomalee in Sri Lanka.

After the constitutional crisis erupted, the international community called for this to be resolved in line with the Sri Lanka's constitution.⁵⁹ India was one of the first countries to cite democratic values in commenting on

55. Meera Srinivasan, 'Sri Lanka: Base for the Asian Great Game?', *The Hindu*, 7 April 2018.

56. 'Indian Assistance of US\$ 45.27 mn to Develop KKS Harbour', *The Island*, 16 January 2018.

57. Ministry of Defence, Sri Lanka, 'Annual Indo-Lanka Defence Dialogue Held in India', 14 January 2018 (http://www.defence.lk/new.asp?fname=Annual_Indo_Lanka_Defence_Dialogue_held_in_India_20180114_01).

58. 'Mitra Shakti: Third Indo-Lanka Joint Training Exercise Culminates', *The Economic Times*, 12 July 2018.

59. Neil DeVotta & Sumit Ganguly, 'The Scarring of Democracy in Sri Lanka'.

the constitutional crisis, and urged Sri Lanka to resolve it by constitutional means.⁶⁰ However Rejapaksa's return to power has deepened concern in India.⁶¹ In particular, India (with its 60 million Tamils in the southern state of Tamil Nadu) expressed concern about the possibility that the new government could give vent to hatred against the Sri Lankan Tamil minority again.⁶² Moreover, India feared a renewed Chinese influence in Sri Lanka.⁶³

2018 also witnessed the continuation and the strengthening of the disputed Sri Lankan-China political and economic relations. Like India, at the beginning of 2018, China hastened to confirm its political and economic commitments with Colombo. Through a long official message to his counterpart to congratulate Sri Lanka on the seventieth anniversary of its independence from British rule, Chinese President Xi Jinping confirmed China's commitment to the strengthening of political, economic and strategic ties with Sri Lanka. The Chinese president emphasised the «fruitful results» and the «pragmatic co-operation» that the two countries had achieved in the joint construction of the economic belt of the Silk Road and the Maritime Silk Road of the XXI Century (MSR).⁶⁴ However, unlike 2017, Chinese influence moved into new geographical areas of Sri Lanka where Indian influence had traditionally been strongest.⁶⁵ In April, Chinese firms invested US\$ 800 million in the Sri Lanka Port City underground road.⁶⁶ This deal was followed in November by two multi-million-dollar contracts with Chinese firms for a port upgrade project.⁶⁷

On the Sri Lankan constitutional crisis, China took a different approach to most countries in the international community. Beijing recognised Rejapaksa's government and officially took a non-interventionist stance, albeit with indications of support for the new de facto regime.⁶⁸

60. Anubhav Gupta, 'A South Asian «Game of Thrones»: Behind Sri Lanka's Political Crisis'.

61. Neil DeVotta, 'Sri Lanka's crisis of democracy'.

62. Neil DeVotta & Sumit Ganguly, 'The Scarring of Democracy in Sri Lanka'.

63. *Ibid.*

64. 'Xi Jinping Says Improving China-Sri Lanka Relations Have his «High Attention»', *The Indian Express*, 4 February 2018.

65. Sudha Ramachandran, 'China Expands its Footprint in Sri Lanka', *The Diplomat*, 11 September 2018.

66. Shihar Aneez, 'Chinese Firm to invest \$800 million on Sri Lanka Port City Underground Road', *Reuters*, 12 April 2018.

67. Shihar Aneez & Ranga Sirilal, 'Sri Lanka Signs Port Deals with China Amid Political Upheaval', *Reuters*, 29 November 2018.

68. The few states to have reportedly recognized Rajapaksa include Burundi and Pakistan, both close partner states of China. Anubhav Gupta, A South Asian «Game of Thrones»: Behind Sri Lanka's Political Crisis'.

3.2. Sri Lankan relations with Japan, Pakistan and Iran

At the beginning of 2018, the Japanese Foreign Minister, Tarō Kōno, visited Sri Lanka. This was the first official visit by a Japanese foreign minister to Sri Lanka in 15 years.⁶⁹ Kōno met President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe, and expressed the willingness of the Japanese government to extend assistance for infrastructure development in Sri Lanka.⁷⁰ The Minister visited the port of Colombo, the Sri Lanka Ports Authority (SLPA) as well as the Colombo Port Expansion Project, currently known as the Colombo South Port. A further sign of the warming of relations between Colombo and Tokyo was the visit of President Sirisena to Japan. In March, following the invitation of Japanese Prime Minister Abe Shinzō, President Sirisena met Emperor Akihito and Prime Minister Abe in Tokyo. Later, the invitation was returned in a further Japanese mission to Colombo. In August, Japan's State Minister of Foreign Affairs of Japan Kazuyuki Nakane visited Colombo and met the Lankan prime minister and a delegation of ministers.⁷¹ During his visit, Nakane also participated in the commissioning ceremony of the two coastguard patrol vessels donated by Japan to Sri Lanka at the Port of Colombo. Moreover, the first steps were taken in closer Sri Lankan-Japanese military relations. In August, the first visit of a Japanese Defence Minister, Itsunori Onodera, to Sri Lanka took place. The Japanese Defence Minister visited Colombo, met government leaders and visited the ports of Colombo, Hambantota, and Trincomalee, the site where Japanese intends to back investment projects. The visit was followed in October by the arrival in Colombo of two Japanese Maritime Self Defence Force (MSDF) vessels, the Izumo-class helicopter destroyer *JS Kaga* and the destroyer *JS Inazuma*. Their arrival emphasised the Japanese presence in the Indian Ocean.⁷² The commanding officers of two ships met the commander of the Sri Lankan Navy, Rear Admiral Sirimevan Ranasinghe. The crews of the *Inazuma* and the *Kaga* were in Colombo for a five-day visit and official tour, intended to deepen maritime co-operation ties between Sri Lanka and Japan.⁷³

2018 also witnessed the *rapprochement* between Sri Lanka and Pakistan, and also between Sri Lanka and Iran. In March, President Maithripala Sirisena officially visited Pakistan. As a foreign guest, President Sirisena took

69. 'Japanese Foreign Minister Visits Port of Colombo', *Daily FT*, 8 January 2018.

70. 'Japanese FM Pledges Closer Relations with Colombo', *The Island*, 5 January 2018; 'Sri Lanka PM Seeks India and Japan Investment to Balance China', *The Times of India*, 27 March 2018.

71. 'JICA Delegation Visits Hambantota Port', *Sunday Observer*, 23 September 2018.

72. Ankit Panda, 'A First: Japan's Largest Warship Visits Sri Lanka on Indo-Pacific Deployment', *The Diplomat*, 2 October 2018.

73. *Ibid.*

part in the celebrations of 78th Pakistan Day Celebrations and was present at the National Day military parade. President Sirisena met with Pakistani President Mamnoon Hussain, and discussed with Pakistani Prime Minister Shahid Khaqan Abbasi on the ways and means to strengthen the trade between the two countries and to reach a target of US\$ 1 billion by the year 2020. Three Memoranda of Understanding (MoU) were signed to enhance bilateral cooperation. The first - signed between the International Diplomatic Training Institute-BIDTI of Bandaranaike and the Pakistan Foreign Service Academy – was on the joint training of diplomats. The second one - signed between the Sri Lanka Institute of Development Administration-SLIDA and the National School of Public Policy-NSPP of Pakistan – aimed at the launching of integrated training programmes concerning administration; the third MoU - signed between Ministry of National Policies and Economic Affairs of Sri Lanka and Ministry of Inter-Provincial Coordination of Pakistan – aimed at jointly promoting youth development.

Similarly, President Sirisena visited Iran in May. He met his Iranian counterpart Hassan Rouhani. The two countries also signed a MoU on the further strengthening of the economic and trade ties between their two countries.⁷⁴

3.3. *Re-positioning Sri Lanka as the centre of the Indian Ocean*

The year under review witnessed new achievements in the long-lasting Sri Lankan strategy for regional security. This strategy has been central in Sri Lankan foreign policy for at least a decade. It has planned to re-position Sri Lanka as the «centre of the Indian Ocean». Over the past years, this goal has been pursued through a twofold strategy: on the one hand, the strengthening of the Sri Lankan position through greater economic integration with regional neighbours, on the other, through greater commitment to regional security.⁷⁵

At the beginning of 2018, Prime Minister Wickremesinghe delivered a keynote speech at the «Invest Sri Lanka Forum» in Singapore, outlining its goal for making Sri Lanka an economic hub of the Indian Ocean. Prime Minister argued that the Indian Ocean was becoming a new centre of economic gravity, and that this, in turn, could enable Sri Lanka to exert leverage on its strategic location. He also argued that Sri Lanka could play a crucial role in the «Free and Open Indo-Pacific Policy and Maritime Order» proposed by Japan, in India's «Neighbourhood First Policy» and in China's «Belt and Road Initiative» connecting East Asia with Africa.⁷⁶

74. 'Sri Lankan President Visits Iran to Forge Trade Deals', *The Hindu*, 13 May 2018.

75. Barana Waidyatilake, 'Sri Lanka's Strategy for Regional Security'.

76. Zaki Jabbar, 'Sri Lanka to Become Hub of Indian Ocean in Partnership with Asia. Accepts Japanese, Indian, Chinese, Initiatives – PM', *The Island*, 4 March 2018.

With these purposes in mind, the Sri Lankan government signed a Free Trade Agreement (FTA) with Singapore.⁷⁷ The signing took place in January, during the Singapore Prime Minister's visit to Colombo. The agreement was aimed at increasing the trade and economic services between the two countries (in 2017, Sri Lankan-Singaporean trade reached US\$ 2.7 billion).⁷⁸ The agreement was also part of a broader «look east strategy» accessing regional supply chains.⁷⁹ Some Sri Lankan professional and business groups expressed opposition to the agreement. To address these concerns, the government argued it would look at new laws to counter sudden surges in imports (dumping) and perceived unfair trade practices.⁸⁰

Besides bilateral economic engagements, Sri Lanka has also enhanced multilateral economic co-operation with economic international entities. In August 2018, President Sirisena took part in the 4th Summit of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) at Kathmandu in Nepal. There, Sirisena re-iterated Sri Lanka's adherence to the process of building and enhancing trade and economic connections among the participants of organisation.⁸¹ Moreover, Sri Lanka was chosen to chair the 5th BIMSTEC Summit. In addition, a Sri Lankan delegation also took part – as dialogue partner – in the work of the 25th ASEAN Regional Forum (ARF) Ministerial Meeting held in Singapore. The Sri Lankan delegation was led by Minister of Foreign Affairs Tilak Marapana. Delivering his statement, Marapana appreciated the constant advancement in the areas of co-operation in the ARF and unreservedly supported the process.

During 2018, Sri Lanka also sought to connect itself with some important multilateral regional security forums. In April, Sri Lanka participated as founding member at the 6th edition of the Indian Ocean Naval Symposium (IONS) held in Iran. IONS was created by the voluntary initiative of the navies and maritime security agencies of the Indian Ocean Region littoral states in order to increase maritime co-operation and to provide an open and inclusive forum for discussion of regionally relevant maritime issues. Sri Lanka also enhanced its connection with the Conference on Interactions and Confidence Building Measures in Asia (CICA).⁸² In August, Sri Lanka was unanimously accepted as a full member

77. Duruthu Edirimuni Chandrasekera, 'SL-S'pore FTA to Open Trade to the East Asian Region', *The Sunday Times*, 28 January 2018.

78. *Ibid.*

79. *Ibid.*

80. 'New FTA with Sri Lanka a Boon for Singapore Firms Large and Small', *The Island*, 27 January 2018.

81. Kamaya Jayatissa, 'Sri Lanka's Foreign Policy: Correcting a Confused State of Affairs', *The Island*, 16 September 2018.

82. It is a multi-national forum for enhancing co-operation towards promoting peace, security and stability in Asia promoted by Kazakhstan in 1992 at the 47th Session of the UN General Assembly.

of the organisation. At a ceremony in Beijing, the Ambassador of Sri Lanka to China signed the Declaration of Principles Guiding Relations among the CICA Members States and the Almaty Act, the two mandatory documents of the organisation. Moreover, Sri Lanka also sought an active role in *Indian Ocean Rim Association* (IORA). Sri Lanka also played a significant role in the creation of a Working Group on Maritime Safety and Security (also known as the WGMSS) within the IORA. The WGMSS was established in September 2018 and Sri Lanka was chosen to chair it for a period of two years.⁸³ All these platforms have provided Sri Lanka with an opportunity to advocate for a regional rules-based order.

4. *The economy*

This section will look at Sri Lanka's economy during the year under review. It will focus on two main points. First, it will give a brief look at Sri Lanka's macroeconomic indicators. Second, it will analyse the difficult process of formulating the Budget for 2019 and the delay of its presentation.

4.1. *Economic trends: still mixed performances*

In 2018, the overall Sri Lanka economic performance was poor. In comparison with other countries in South Asia and Southeast Asia, the 2018 Sri Lankan economic performance was not satisfactory.⁸⁴ The economy still suffered from structural weaknesses (such as weak domestic demand, high government consumption spending, continued tightening in monetary conditions and lower net exports). Moreover, the economically difficult international situation and the persistent domestic political instability and uncertainty may have further negatively affected the weak Sri Lankan economic growth in the year under review. However, certain International Monetary Fund (IMF)-backed structural reforms to address the key structural problems were successfully implemented by the Sri Lankan government. Among these measures there was the new Inland Revenue Act to achieve revenue-based fiscal consolidation and the introduction of an automatic fuel pricing formula in order to reduce the fiscal risks of State-Owned Enterprises (SOEs).⁸⁵

83. Barana Waidyatilake, 'Sri Lanka's strategy for regional security'.

84. Asian Development Bank, 'Asian Development outlook 2018 Update', September 2018, p. 139 and 162.

85. G.D. Kapila Kumara, 'Sri Lankan economy in 2018 and 2019 outlook', *DailyFT*, 2 January 2019.

For about the first nine months of 2018, GDP growth stood at 3.3%.⁸⁶ The industrial sector (including construction) fared poorly (only 1%).⁸⁷ Growth in import expenditure (12.7%) outpaced the increase in export earnings (6.2%) and the trade deficit widened by 20% on a Y-o-Y basis.⁸⁸ Total government expenditures also increased by 5%. The Sri Lankan rupee (LKR) recorded a significant fall in its value.⁸⁹ The labour force participation rate and the unemployment rate worsened slightly.⁹⁰

Nevertheless, there were also some quite positive outcomes. All three sectors of the economy witnessed expansion, led mainly by the services sector.⁹¹ Exports registered the highest exports growth for the last three years due to industrial exports, particularly in textiles and garments.⁹² However, government revenue growth was moderate in the period (about by 5%, compared to the same period in 2017),⁹³ and a primary surplus was maintained.⁹⁴ The primary balance continued to be positive despite the slow pace in revenue growth.⁹⁵ After two years of deficits, the Sri Lankan Balance of Payment (BOP) recorded a surplus of 2.1 billion USD, mainly due to increased debt capital, rather than improvements in the external sector (the trade deficit worsened and the current account deficit widened during the

86. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-December 2018', *Economy.lk*, December 2018 (<https://economy.lk/singlepage-artical.php?id=144>).

87. Nimal Sandaratne, 'Mid-Year Review: Economic Recovery Yes, but no Robust Growth', *The Sunday Times*, 1 July 2018.

88. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-August 2018', *Economy.lk*, August 2018 (<https://www.economy.lk/singlepage-artical.php?id=86>).

89. In Q2, the LKR recorded its lowest ever trading value (158.14 as the US\$: LKR exchange rate) (May 2018). The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-May 2018'.

90. The labour force participation rate declined from 52% in Q1 to 51.1% in Q2 of 2018 (from 53.9% in Q2 of 2017). The unemployment rate increased from 4.5% in Q1 to 4.6% in Q2 2018). The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-December 2018'.

91. Agriculture grew about 4.8% and services grew about 4.4%. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-September 2018', *Economy.lk*, September 2018 (<https://economy.lk/singlepage-artical.php?id=106>).

92. Nimal Sandaratne, 'Mid-Year Review: Economic Recovery Yes, but no Robust Growth', *The Sunday Times*, 1 July 2018.

93. This is below the estimated growth of 21% for the full year of 2018, largely due to the 36% decline in import duties collected. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update- May 2018', *Economy.lk*, May 2018 (<https://economy.lk/singlepage-artical.php?id=46>).

94. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-November 2018', *Economy.lk*, November 2018 (<https://economy.lk/singlepage-artical.php?id=142>).

95. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-September 2018', *Economy.lk*.

year).⁹⁶ The FDI inflows expanded, increasing by 137% to US\$ 1,428Mn.⁹⁷ Moreover, tourism earnings and workers' remittances rose by 17% and 3.5% on a Y-o-Y basis.⁹⁸ Inflation in Sri Lanka declined slightly. The first half of year also witnessed the positive steps in the process of the disbursement of loans from IMF. In April, an IMF team reached a staff-level agreement with the Sri Lankan authorities on the 4th review under the Extended Fund Facility (EFF) arrangement.⁹⁹ Later, the IMF completed the fourth review under the Extended Fund Facility and then, in June, it disbursed the 5th *tranche* of Sri Lanka's EFF loan amounting to Special Drawing Rights (SDR) 177.774 Mn, equivalent to US\$ 252 Mn.¹⁰⁰

The second half of 2018 witnessed similar poor economic performances. Moreover, the last months of the year saw a worsening in economic trends due to the escalating political crisis. The external sector recorded moderate positive performances and the FDI inflows to Sri Lanka continued to expand.¹⁰¹ At the same time, the GDP rate of growth slid further. It fell to 2.9% (compared to a 3.2% growth in the Q3 of 2017) due to bad performances in the industrial sector. The Sri Lankan currency continued to weaken despite import restrictions.¹⁰² The last months of the year were marked by political turmoil and uncertainty, which caused the downgrading of Sri Lanka by the main international economic institutions and rating agencies.¹⁰³ In particular, all the rating agencies placed Sri Lanka at the same level under the highly speculative category.¹⁰⁴ The IMF announced that discussions around the further *tranche* of a US\$ 1.5 billion

96. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-May 2018', *Economy.lk*,

97. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-October 2018', *Economy.lk*, October 2018 (<https://economy.lk/singlepage-artical.php?id=129>).

98. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-June 2018', *Economy.lk*, June 2018 (<https://economy.lk/singlepage-artical.php?id=54>).

99. The deal provided the adoption of an automatic fuel pricing mechanism. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-April 2018', *Economy.lk*, April 2018 (<https://economy.lk/singlepage-artical.php?id=41>); 'IMF Reaches Staff-Level Agreement on the Fourth Review of Sri Lanka's Extended Fund Facility', April 2018).

100. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-June 2018', *Economy.lk*; Bandula Sirimanna, 'IMF Releases Fifth Tranche of Sri Lanka's EFF', *The Sunday Times*, 3 June 2018.

101. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-December 2018'.

102. The Economic Intelligence Unit of the Ceylon Chamber of Commerce, 'Monthly Economic Update-October 2018'.

103. Shihar Aneez & Abhirup Roy, 'Sri Lanka's Political Crisis Triggers Major Economic Concerns', *Reuters*, 29 October 2018.

104. Edward White, 'Moody's Flags Concern on Sri Lankan Political Turmoil', *The Financial Times*, 29 October 2018.

loan had been put on hold. The IMF-Sri Lanka meeting on next loan *tranche* scheduled for November was postponed.¹⁰⁵

4.2. Budget 2019

The presentation of the budget for the 2019 has been delayed due to the political turmoil and uncertainty since 26 October 2018.

A first attempt to present the budget for 2019 in Parliament took place on 9 October 2018. The approval for the budget failed because President Sirisena suspended the Parliament on 27 October, just days before the official presentation of the budget on 5 November. Following the parliamentary statutory provisions, a provisional account for covering the government expenditure for the first four months of 2019 (until the re-submission of a new budget) was presented in Parliament on 21 December 2018. The provisional account passed with 102 votes to 6 in the 225-member parliament. The vote gave the government permission to use 1.77-trillion-rupees (US\$ 9.39 billion) to meet government expenditure and to raise up to 990 billion rupees in loans.¹⁰⁶

On 7 January 2019, Finance Minister Mangala Pinsiri Samaraweera submitted the budget for 2019 to the cabinet. The government received cabinet approval for an estimated 4.55 trillion Rupees (approximately US\$ 25 billion) as expenditure for its services for the financial year of 2019, while the state revenues for 2019 were expected to be 2.39 trillion Rupees. Moreover, the budget for 2019 allocated 2.2 trillion Rupees (US\$ 12 billion) for debt servicing, the largest in the history of the country, according to Finance Minister Mangala Samaraweera.¹⁰⁷ The cabinet also decided to present the Appropriation Bill (it is the parliamentary definition for what is popularly known as the Budget) in the Parliament on 5 February 2019. However, by the end of the period under review, the 2019 Budget had yet to be presented.¹⁰⁸

105. 'IMF Delays Sri Lanka's Loan Discussion on Political Crises', *Reuters*, 20 November 2018.

106. 'Sri Lanka Passes 1.77-trln-rupee vote on Account for 4 Months', *Reuters*, 21 December 2018. The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.

107. 'Cabinet Approves Appropriation Bill 2019', *Adavarana.lk*, 8 January 2019.

108. The presentation of the Complete 2019 budget to the Parliament by The Finance Minister was scheduled on 5 March 2019 and the final vote was scheduled on 4 April 2019.