

Sri Lanka: Elections pave the way for a new political era amid an economic crisis | Credendo

Event

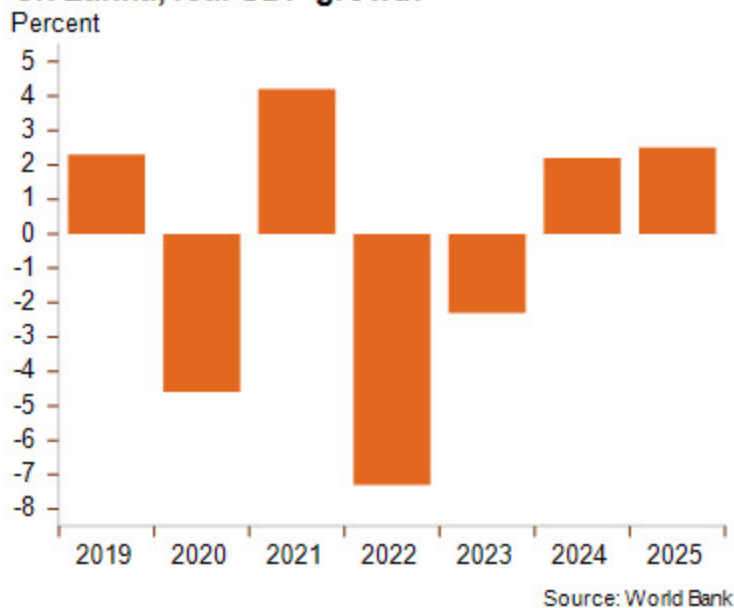
Centre-left candidate Anura Kumara Disanayake became the surprise new president of Sri Lanka after winning the elections on 21 September. Then, less than two months later, his National People's Power (NPP) alliance – led by his Janatha Vimukthi Peramuna (JVP) party – achieved a convincing victory at snap parliamentary elections. In the new Parliament, the NPP, a wide alliance of parties and organisations, holds a two-thirds majority, with 159 seats out of 225, which should allow the new ruling administration to implement their agenda.

Impact

What's most striking about the NPP alliance's undisputed victory is that until now, it was barely even a minor political player – in the 2020 elections, it obtained a mere three seats. That said, the severity of the economic turmoil has helped to explain such a political surprise, and the NPP's landslide success highlights the population's call for deep political change following a historic economic crisis and social shocks. Through their votes, the majority of people have demonstrated their will to do away with dynastic and corrupt political practices and public mismanagement, in particular targeting the Rajapaksa family's long rule that many believe is to blame for the economic distress. Indeed, during his campaign, Disanayake called for transparency, a shake up of the political establishment and support for those most affected by the economic slump. Therefore, with the support of a parliamentary majority, the 2024 elections may well pave the way for a new political era in the country.

The fact that the president has retained the finance portfolio is an indication of his priorities, which lean towards sustained economic recovery – real GDP growth turned positive again this year after two years of recession – and ensuring that the economy and debt are put on a more sustainable footing.

Sri Lanka, real GDP growth



As a result, Dissanayake is expected to be pragmatic, agreeing on most reforms and bailout terms (primarily fiscal measures) required by the ongoing IMF programme, and the recent agreement for a third review under the IMF EFF financial programme reflects this. However, he is likely to strive to negotiate an easing of austerity measures and fiscal reforms. Key external debt restructuring is in its final phase and should also remain on track after a very long period of talks between Sri Lanka's many creditors, including official creditors and bondholders, the latter having recently reached a deal with the Sri Lankan authorities.

Since coming into power, Dissanayake has offered guarantees of stability, allaying fears about his party's troubled past (the JVP was involved in violent insurgencies in the 1970s and 1980s). His pragmatism and responsible stance are also expected to be adopted in geopolitical games, balancing Chinese and Indian interests with the aim of benefiting from their investments and avoiding taking sides. Of course, the hardest part is yet to come for the new president. Reforming public governance will be very challenging, while socioeconomic conditions remain challenging and will not immediately improve amid austerity policies related to the IMF programme. In this context, Credendo has given a cautiously positive outlook for country risk ratings, notably for the business environment risk (currently F/G). This is supported by low inflation, a gradually appreciating rupee bouncing back from a historic low (+10% against the US dollar between January and November) and the economic recovery that is underway.

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