SRI LANKA'S ECONOMIC CRISIS: FROM ECONOMIC COLLAPSE TO CONDITIONAL RECOVERY

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INTRODUCTION

Sri Lanka's economic collapse in 2022, which began in 2019, marked the most severe breakdown of state capacity and political legitimacy since its independence in 1948.[1] The crisis was triggered by a severe shortage of essential goods, sovereign debt default, and hyperinflationary pressures. It spiralled into a profound political mayhem culminating in the resignation of President Gotabaya Rajapaksa and the collapse of the ruling administration.[2] The crisis

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1. Prakash Mirchandani and Talal Rafi, "Sri Lanka: From Economic Collapse to Remarkable Recovery: Policy Lessons and Recommendations," Australian Institute of International Affairs, August 5, 2025, https://www.internationalaffairs.org.au/australianoutlook/sri-lanka-from-economic-collapse-to-remarkable-recovery-policy-lessons-and-recommendations/. Accessed on March 2, 2026.
2. "Sri Lanka: Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Sri Lanka," International Monetary Fund (IMF), March 20, 2023, https://www.imf.org/en/publications/cr/issues/2023/03/20/sri-lanka-request-for-an-extended-arrangementunder-the-extended-fund-facility-press-531191. Accessed on March 2, 2026.

generated mass protests across the country, and significantly altered Sri Lanka's political landscape.

In April 2022, Sri Lanka unilaterally suspended payments on its external debt for the first time in its history, effectively declaring a sovereign default. The exhaustion of foreign exchange reserves, default on external debt, public funding of loss-making State-Owned Enterprises (SoEs), acute shortages of fuel, food, and medicine, and a dramatic contraction of living standards culminated not merely in macroeconomic dislocation but also in an unprecedented rupture of political legitimacy.[3] All this led to mass protests, popularly termed the *Aragalaya* in June 2022, which ultimately forced President Gotabaya Rajapaksa to resign. It marked a rare instance in South Asia where sustained popular mobilisation directly precipitated regime change outside an electoral cycle.[4]

The Sri Lankan crisis has mostly been explained through material variables such as unsustainable debt accumulation, fiscal mismanagement, and exogenous shocks like the COVID-19 pandemic, but they fall short when explaining both the timing and the political consequences of the collapse.[5] The crisis and its aftermath, thus, present a crucial case study in how economic distress intersects with political legitimacy, institutional fragility, and national identity—dimensions which are central to a constructivist theoretical interpretation.

From a constructivist perspective in international political economy, the crisis cannot be understood merely as the outcome of quantitative indicators such as debt-to-GDP (Gross Domestic Product) ratios or reserve levels; it must also be analysed in terms of shared ideas, evolving political narratives, and collective expectations about

3. Lalith P Samarakoon, "What Broke the Pearl of the Indian Ocean? The Causes of the Sri Lankan Economic Crisis and its Policy Implications," *Journal of Financial Stability*, vol. 70, February 2024, https://www.sciencedirect.com/science/article/abs/pii/S1572308923001134. Accessed on March 2, 2026.
4. Meera Srinivasan, "Janatha Aragalaya: The Movement that Booted out the Rajapaksas," *The Hindu*, July 17, 2022, https://www.thehindu.com/news/international/janatha-aragalaya-the-movement-that-booted-out-the-rajapaksas/article65645573.ece. Accessed on March 2, 2026.
5. Ayesha Perera, "Sri Lanka: Why is the Country in an Economic Crisis?" *BBC*, March 29, 2023, https://www.bbc.com/news/world-61028138. Accessed on March 2, 2026.

the role of the state and the economy.[6] Constructivism holds that policymaking and public legitimacy are socially mediated: economic agents respond to prices and policy signals but also to norms, stories, and political identities.[7] In Sri Lanka, popular narratives about corruption, elite entitlement, and nationalist economic autonomy significantly shaped responses to both the crisis and the policy choices that followed.[8] This article, through a constructivist political economy interpretation, argues that Sri Lanka's crisis must be understood as a breakdown in shared ideas about economic governance, state responsibility, and political authority.

ORIGINS OF THE 2022 ECONOMIC CRISIS

The origins of Sri Lanka's crisis can be traced to a conversion of structural weaknesses and policy missteps. Existing analysis shows that Sri Lanka's long standing and sizeable fiscal deficits, borne of recurrent expenditure and inadequate revenue generation, ended up creating a vulnerability that later on worsened due to global shocks.[9] Elevated external debt levels and the depletion of foreign exchange reserves left the country increasingly unable to service its obligations to external creditors.[10] By 2022, foreign reserves had fallen to insufficient levels, incapable of even financing essential imports, such as fuel, food, and medicine.[11] These structural weaknesses were compounded by specific policy decisions during the late 2010s and early 2020s. For instance, steep tax cuts introduced in 2019 diminished government revenue at a time when borrowing costs were rising,

6. Alexander Wendt, *Social Theory of International Politics* (Cambridge: Cambridge University Press, 1999), pp. 1–20.
7. Rawi Abdelal, Mark Blyth, and Craig Parsons, eds., *Rethinking Economic Interests* (Princeton: Princeton University Press, 2010), pp. 1–26.
8. Ganeshan Wignaraja, "Five Lesson's From Sri Lanka's Debt and Economic Crisis," Overseas Development Institute, April 27, 2022, http://odi.org/en/insights/five-lessons-from-sri-lankas-debt-and-economic-crisis/. Accessed on March 2, 2026.
9 Samarakoon, n. 3, pp. 5–6.
10. World Bank, *Sri Lanka Development Update 2025* (Washington DC: World Bank, 2025), pp. 1–3, https://www.worldbank.org/en/country/srilanka/publication/sri-lanka-development-update-2025. Accessed on March 2, 2026.
11. Ibid., pp. 2–3.

thereby exacerbating fiscal imbalance.[12] The decision to reduce taxes steeply or eliminate certain taxes simultaneously shrank the tax base and elevated reliance on debt financing.

Furthermore, macroeconomic mismanagement was not solely a function of domestic policy choices; the COVID-19 pandemic played a significant role in precipitating crisis conditions. It delivered a severe blow to Sri Lanka's tourism sector, which had historically been a major source of foreign exchange, while global commodity price volatility, especially in the fuel and fertiliser markets, strained the already fragile reserve buffers.[13] In the absence of adequate foreign exchange, Sri Lanka's Central Bank abandoned efforts to support the Sri Lankan rupee, leading to sharp depreciation and inflationary pressures.[14] Rising inflation, which at times reached levels of hyperinflation, significantly eroded the purchasing power of ordinary citizens in the country, which only further deepened public discontent and undermined living standards.

The economic dislocation quickly evolved into a political crisis. By mid-2022, mass protests erupted across the island, fuelled not only by the dearth of essentials but also by a growing perception of elite culpability. Public anger consolidated around narratives of nepotism, crony capitalism, and misgovernance, particularly targeted at President Rajapaksa's administration, whose government had overseen much of the contested economic policy in the preceding years.[15] These protests were notable not merely for their scale but for what they demanded: citizens voiced a unanimous demand for accountability and a reconstitution of political authority. Constructivist scholarship highlights that such discursive shifts, such as the reframing of political legitimacy, are critical in understanding

12. Mathew Emmanuel Pineda, "Causes of the Sri Lanka Economic Crisis," *Profolus*, July 21, 2022, http://profolus.com/topics/causes-of-the-sri-lanka-economic-crisis/. Accessed on March 2, 2026.
13. n. 10, pp. 1–2.
14. Dominic Diongson, "How Did Sri Lanka's Economy Collapse? Causes and Economic Reforms," *The Street*, June 6, 2023, https://www.thestreet.com/economy/sri-lankas-economic-collapse. Accessed on March 2, 2026.
15. Chulanee Attanayake and Shavinyaa Vijaykumarr, "Sri Lanka's Economic Meltdown Sparks Political Crisis," Institute of South Asian Studies, April 14, 2022, https://www.isas.nus.edu.sg/papers/sri-lankas-economic-meltdown-sparks-political-crisis/. Accessed on March 2, 2026.

why and how the established regime lost its authority. For many observers, the crisis was not a natural disaster but a socially interpreted failure of state responsibility, which eroded the normative foundations of governance.

The political fallout was swift. As shortages intensified and inflation surged, the Rajapaksa government's credibility plummeted. It attempted a series of Cabinet reshuffles and interim measures, none of which arrested the deepening crisis. By July 2022, the protesters had stormed key government institutions, and President Rajapaksa fled the country. He was succeeded by then-Prime Minister Ranil Wickremesinghe, who assumed the presidency amidst a dire legitimacy deficit.[16] The political instability demonstrated how economic distress could rapidly translate into a crisis of governance and public trust, reinforcing the constructivist claim that economic policy is inseparable from political legitimacy and public narratives about justice and competence.

A CONSTRUCTIVIST APPROACH TO THE ECONOMIC CRISIS AND POLITICAL LEGITIMACY

Constructivism in the international political economy emphasises the importance of ideas, norms, and social identities in shaping political and economic outcomes. Unlike purely materialist approaches that focus on economic indicators or institutional constraints, constructivist perspectives argue that political actors interpret economic conditions through socially constructed narratives and shared understandings.[17]

Scholars such as Alexander Wendt argue that political realities are not solely determined by material capabilities, and, are, instead, also shaped by collective beliefs and identities.[18] In the context of economic crises, this perspective highlights the importance of public narratives surrounding governance, responsibility, and legitimacy. Economic crises often generate competing interpretations regarding their causes and potential solutions, which, in turn, shape political mobilisation and policy responses.

16. Ibid.
17. Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change," *International Organization*, vol. 52, no. 4, 1998, pp. 887–917.
18. Wendt, n. 6, p. 13.

Within domestic politics, constructivist scholars argue that legitimacy holds a central role in sustaining political authority. Governments maintain power not only through institutional mechanisms but also by way of acceptance of their authority by society.[19] When public perceptions shift, and political authority is no longer viewed as legitimate, crises can trigger rapid political transformation. Economic crises frequently create such moments of legitimacy breakdown. Mark Blyth argues that economic instability often produces "ideational contests" in which competing political narratives attempt to define the causes of the crisis and appropriate solutions.[20] These narratives influence public opinion and shape the political viability of different policy responses.

In Sri Lanka's case, the 2022 crisis represented not only a fiscal collapse but also a profound challenge to the legitimacy of the country's political elite. The protest movement that emerged during the crisis framed economic hardship as the product of corruption, mismanagement, and elite capture of the state.[21] This narrative reshaped political discourse and played a central role in mobilising mass protests. A constructivist perspective, hence, provides a crucial analytical framework to understand how economic collapse translated into political transformation. Even though structural economic vulnerabilities created the conditions for crisis, it was the evolving social narrative and collective expectations concerning governance and accountability that mediated the political consequences.

STRUCTURAL AND POLICY ORIGINS OF THE 2022 ECONOMIC CRISIS

Sri Lanka's economic collapse in 2022 was the culmination of long-standing structural weaknesses in the country's political economy. Persistent fiscal deficits, rising external debt, and declining foreign

19. Mark Suchman, "Managing Legitimacy: Strategic and Institutional Approaches," *Academy of Management Review*, vol. 20, no. 3 (1995), pp. 571–610.
20. Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002), p. 10.
21. David G. Timberman, "The Aragalaya Protest Movement and the Struggle for Political Change in Sri Lanka," Carnegie, August 27, 2025, https://carnegieendowment.org/russia-eurasia/research/2025/08/sri-lanka-aragalaya-protest-movement-oust-wickremesinghe-rajapaksa. Accessed on March 3, 2026.

exchange reserves created a fragile macroeconomic environment long before the crisis erupted.[22]

One of the most significant structural problems was the country's reliance on external borrowing to finance economic development. Over several decades, Sri Lanka increasingly relied on international sovereign bonds and other forms of external financing to fund infrastructure projects and government expenditure.[23] While this borrowing facilitated short-term growth, it also created a large external debt burden that became increasingly difficult to service. By 2021, Sri Lanka's total external debt had reached approximately US$ 51 billion, while foreign exchange reserves had fallen to critically low levels.[24] The country's debt-servicing obligations far exceeded its capacity to generate foreign currency through exports and tourism. This imbalance created a severe balance-of-payments vulnerability.

Fiscal policy decisions in the late 2010s further exacerbated these structural weaknesses. In 2019, the government implemented major tax reductions aimed at stimulating economic growth. These tax cuts significantly reduced government revenue and widened the fiscal deficit at a time when the country was already experiencing rising debt obligations. Credit rating agencies subsequently downgraded Sri Lanka's sovereign credit rating, effectively cutting off access to international capital markets.[25] External shocks such as the COVID-19 pandemic severely disrupted Sri Lanka's tourism sector, which had been one of the country's largest sources of foreign exchange. Remittances from Sri Lankan workers abroad also declined significantly during the pandemic, further reducing foreign

22. International Monetary Fund, *Sri Lanka: Selected Issues* (Washington, DC: IMF, 2023), pp. 22–23.
23. Indrajeet Coomaraswamy and Ganeshan Wignaraja, "What Can We Learn from Sri Lanka's Debt Default?," *SouthAsia@LSE*, October 16, 2023, https://blogs.lse.ac.uk/southasia/2023/10/16/what-can-we-learn-from-sri-lankas-debt-default/. Accessed on March 3, 2026.
24. "Annual Report 2021," Central Bank of Sri Lanka, 2022, https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2021. Accessed on March 3, 2026.
25. "Sri Lanka Downgraded to CC," Fitch Ratings Report, April 13, 2022, https://www.fitchratings.com/research/sovereigns/fitch-downgrades-sri-lanka-to-c-13-04-2022#:~:text=Fitch%20Ratings%2DHong%20Kong%2D13%20April%202022:%20Fitch%20Ratings,Default%20Rating%20(IDR)%20to%20'C'%20from%20'CC'. Accessed on March 3, 2026.

currency inflows.[26] As foreign exchange reserves continued to decline, the government struggled to finance essential imports such as fuel, food, and medicine. Inflation rose rapidly, and the Sri Lankan rupee depreciated sharply against major currencies.[27] Also, major policy responses during this period further undermined confidence. The abrupt ban on chemical fertilisers in 2021, implemented without adequate consultation or transition planning, reduced agricultural output and increased food insecurity. Although framed as an environmentally progressive and sovereignty-enhancing measure, the policy's failure exposed the risks of ideologically rigid governance.[28] From a constructivist perspective, the fertiliser ban illustrates how moral certainty and nationalist framing foreclosed adaptive correction, transforming policy error into systemic vulnerability.

With the scarcity of fuel, electricity, food, and medicine, the legitimacy of the Rajapaksa administration eroded rapidly. Long queues, power cuts, and inflation became the norm and turned abstract fiscal problems into everyday hardship. Protesters reframed economic suffering as evidence of elite betrayal, collapsing distinctions between technical mismanagement and moral failure.[29] The protest movement that emerged in early 2022 was unprecedented in its breadth and intensity. Demonstrations cut across class, ethnic, and regional lines, mobilising citizens who had previously remained politically disengaged. Notably, the movement rejected party symbols and formal leadership, framing the crisis as systemic rather

26. Asian Development Bank, *Asian Development Outlook 2022: Sri Lanka* (Manila: ADB, 2022), p. 20.
27. "Economic and Social Statistics of Sri Lanka, Central Bank of Sri Lanka, 2022, https://www.cbsl.gov.lk/en/publications/other-publications/statistical-publications/economic-and-social-statistics-of-sri-lanka/ess-2022. Accessed on March 3, 2026.
28. Jayati Ghosh, "There is a Global Debt Crisis Coming—and it Won't Stop at Sri Lanka," *The Guardian*, July 26, 2022, https://www.theguardian.com/world/commentisfree/2022/jul/26/global-debt-crisis-sri-lanka-foreign-capital#:~:text=3%20years%20old,There%20is%20a%20global%20debt%20crisis%20coming%20%E2%80%93%20and%20it%20won,overthrow%20of%20President%20Gotabaya%20Rajapaksa. Accessed on March 3, 2026.
29. Radio Davos, "Can the Word 'Polycrisis' Help us Make Sense of the Post-COVID World? Historian Adam Tooze has His Say," World Economic Forum, https://www.weforum.org/podcasts/radio-davos/episodes/polycrisis-adam-tooze/. Accessed on March 3, 2026.

than partisan. Constructivist theory helps explain this dynamic: once dominant narratives of leadership competence collapse, existing categories of political representation lose authority.[30]

International reactions amplified domestic pressures. Credit rating downgrades, suspension of external financing, and mounting multilateral concern reinforced perceptions of state failure. These external signals reshaped domestic understandings of sovereignty, forcing a reluctant acknowledgement of interdependence. In April 2022, the government announced that it would suspend repayments on its external debt, marking the first sovereign default in Sri Lanka's history.[31] The default triggered a broader economic collapse characterised by currency depreciation, soaring inflation, and widespread shortages of essential goods. Economic output contracted sharply during the crisis. Sri Lanka's economy experienced one of the most severe contractions in its history, with businesses closing, unemployment rising, and poverty increasing significantly across the population.[32]

The crisis, therefore, reflected the interaction of multiple structural factors, including unsustainable borrowing patterns, fiscal mismanagement, and external shocks. However, the severity of the crisis also revealed deeper institutional weaknesses within Sri Lanka's governance system, particularly in relation to transparency, fiscal discipline, and economic policymaking.

THE COLLAPSE OF THE RAJAPAKSA GOVERNMENT

As economic conditions deteriorated in early 2022, public dissatisfaction with the government intensified rapidly. The crisis triggered an unprecedented wave of public protests that became known as the *Aragalaya* movement. Demonstrations emerged across Sri Lanka, particularly in the capital Colombo, where protesters established large encampments outside government buildings.[33]

30. Ibid.
31. "Sri Lanka's Economic Crisis and Debt Restructuring Efforts," *Reuters*, April 16, 2024, https://www.reuters.com/markets/asia/sri-lankas-economic-crisis-debt-restructuring-efforts-2024-04-16/. Accessed on March 3, 2026.
32. Perera, n. 5.
33. Timberman, n. 21.

Unlike previous political protests in Sri Lanka, the *Aragalaya* movement brought together a diverse coalition of participants, including students, professionals, labour unions, and members of the middle class. Protesters demanded not only economic relief but also fundamental political reform. Their central demand was the resignation of President Gotabaya Rajapaksa and the dismantling of entrenched political patronage networks. The movement was characterised by decentralised organisation and strong mobilisation through social media platforms.[34] Protesters framed the crisis as the result of corruption, nepotism, and political mismanagement by the ruling elite. By mid-2022, the protests had escalated dramatically. Demonstrators stormed the presidential residence and other government buildings in July 2022, symbolising the collapse of the government's authority. Facing mounting pressure, President Rajapaksa fled the country and subsequently resigned from office. The resignation of the president marked the end of the Rajapaksa family's dominance in Sri Lankan politics, which had lasted for nearly two decades.[35] This political upheaval represented one of the most dramatic leadership changes in the country's modern history.

Following Rajapaksa's resignation, the Sri Lankan Parliament elected Ranil Wickremesinghe as president to complete the remainder of the presidential term.[36] Wickremesinghe's administration inherited an economy in deep crisis and faced the immediate challenge of restoring macroeconomic stability. However, the new administration faced significant legitimacy challenges. Many citizens viewed Wickremesinghe as representing the political establishment that had

34. Sakina Razick, "Sri Lanka's Aragalaya: The Role of a Citizen Movement During Crisis," Stanford, December 17, 2025, https://fsi.stanford.edu/sipr/content/sri-lankas-aragalaya-role-citizen-movement-during-crisis. Accessed on March 4, 2026.
35. Aparna Ramamurthy, "The Rise and Fall of Sri Lanka's Powerful Rajapaksa Dynasty," *DW*, July 13, 2022, https://www.dw.com/en/rajapaksa-the-rise-and-fall-of-sri-lankas-powerful-political-dynasty/a-62458780#:~:text=%22Sri%20Lanka%20has%20been%20mismanaged,trying%20to%20leave%20the%20country. Accessed on March 4, 2026.
36. Meera Srinivasan, "Ranil Wickremesinghe Elected President of Sri Lanka in Parliament Vote," *The Hindu*, July 21, 2022, https://www.thehindu.com/news/international/ranil-wickremesinghe-elected-president-of-sri-lanka-in-parliament-vote/article65661220.ece. Accessed on March 4, 2026.

presided over the crisis. As a result, political dissatisfaction remained high even after the change in leadership.

From a constructivist perspective, the *Aragalaya* movement reshaped Sri Lanka's political discourse by introducing new narratives centred on accountability, transparency, and democratic reform. These narratives influenced subsequent political developments and redefined public expectations of governance.

ECONOMIC STABILISATION AND RECOVERY SINCE THE CRISIS

Following the political transition in 2022, Sri Lanka embarked on a programme of economic stabilisation aimed at restoring macroeconomic stability and rebuilding international confidence.

A key component of this process was the negotiation of a bailout programme with the International Monetary Fund (IMF). In 2023, Sri Lanka managed to secure a US$ 2.9 billion Extended Fund Facility (EFF) agreement designed to support economic recovery and restore fiscal sustainability.[37] The IMF programme required a comprehensive package of economic reforms. One central element involved increasing government revenue through tax reforms. Sri Lanka's tax-to-GDP ratio had declined significantly in the years preceding the crisis, undermining fiscal sustainability.[38] The reform programme introduced higher income taxes, expanded value-added tax coverage, and strengthened tax administration. These measures were intended to restore fiscal discipline and reduce budget deficits. Debt restructuring was another critical component of the recovery programme. Sri Lanka engaged in complex negotiations with bilateral creditors and private bondholders to restructure its external debt obligations. Successful restructuring agreements were essential for restoring debt sustainability and unlocking additional international

37. Kristalina Georgieva, "IMF Executive Board Approves US$ 3 Billion Under the New Extended Fund Facility (EFF) Arrangement for Sri Lanka," International Monetary Fund, March 20, 2023, https://www.imf.org/en/news/articles/2023/03/20/pr2379-imf-executive-board-approves-under-the-new-eff-arrangement-for-sri-lanka. Accessed on March 4, 2026.
38. "Sri Lanka Development Update 2023," World Bank, October 3, 2023, https://www.worldbank.org/en/country/srilanka/publication/sri-lanka-development-update-2023. Accessed on March 4, 2026.

financial assistance. The government also initiated reforms targeting state-owned enterprises, many of which had generated substantial financial losses. These reforms included adjustments to energy pricing, governance reforms within public utilities, and efforts to improve financial management.[39]

In the 2024 elections, the National People's Power (NPP) under the leadership of President Anura Kumara Dissanayake won the people's mandate on the promise of a clean government and social justice, with a two-third majority. They pledged many democratic reforms, such as drafting a new Constitution, combating corruption, promoting a clean government and also bolstering accountability, transparency, and productivity.[40] Despite the social costs associated with these reforms, the stabilisation programme gradually produced positive economic outcomes. Inflation declined from the extremely high levels recorded during the crisis, and shortages of essential goods were largely alleviated.[41] In December 2024, Sri Lanka completed its bilateral debt restructuring and postponed repayment to 2028. However, most of Sri Lanka's external debt is in the form of international sovereign bonds at US$ 12.5 billion.[42] By 2025, Sri Lanka's economy had returned to moderate growth, with improvements in the industrial, agricultural, and service sectors.[43] Tourism revenues and export earnings also began to recover as

39. Uditha Jayasinghe, "Sri Lanka Reaches Debt Restructuring Agreement with Creditor Nations: Government Sources," *Reuters*, November 21, 2023, https://www.reuters.com/world/asia-pacific/sri-lanka-reaches-debt-restructuring-deal-with-creditor-nations-government-2023-11-29/. Accessed on March 4, 2026.
40. Bhavani Fonseka, "Sri Lanka's Elusive Democratic Renewal," Carnegie, November 10, 2025, https://carnegieendowment.org/research/2025/11/sri-lanka-democracy-protest-one-year-later. Accessed on March 4, 2026.
41. Krishna Srinivasan and Peter Breuer, "IMF-OP ED: Sri Lanka's Economic Reform Program is Starting to Work—Keep at It for a Full Recovery," *Sunday Times*, February 22, 2024, https://sundaytimes.lk/online/news-online/IMF-OP-ED-Sri-Lankas-Economic-Reform-Program-is-Starting-to-WorkKeep-at-It-for-a-Full-Recovery/2-1145104. Accessed on March 5, 2026.
42. Harindra B. Dassanayake and Rajni Gamage, "Sri Lanka's NPP Government: From System Change to Structural Compliance," French Institute of International Relations, September 24, 2025, https://www.ifri.org/en/studies/sri-lankas-npp-government-system-change-structural-compliance. Accessed on March 5, 2026.
43. "Global Economic Prospects: South Asia," World Bank, June, 2025, p. 86, https://thedocs.worldbank.org/en/doc/8bf0b62ec6bcb886d97295ad930059e9-0050012025/related/GEP-June-2025-Analysis-SAR.pdf. Accessed on March 5, 2026.

global economic conditions improved. These developments suggest that Sri Lanka has made significant progress in stabilising its economy following the crisis. However, recovery remains fragile and heavily dependent on continued fiscal discipline and successful debt restructuring. Moreover, the NPP government has largely maintained the previous administration's macroeconomic policies and the IMF-supported stabilisation programmes. Its current economic agenda reflects a statist narrative focussed on export-led industrialisation and manufacturing.[44]

CONTINUING CHALLENGES AND THE LIMITS OF RECOVERY

Despite the progress achieved since 2022, Sri Lanka continues to face significant structural challenges that could affect the sustainability of its recovery. One such pressing challenge is the persistence of high levels of poverty and inequality. The economic contraction experienced during the crisis pushed large numbers of households into poverty, and many families continue to struggle with the high cost of living.[45] Debt sustainability also remains a critical concern. Even after restructuring agreements, Sri Lanka continues to carry a substantial external debt burden that constrains government spending and limits policy flexibility.[46] The country also remains vulnerable to external shocks, including fluctuations in global commodity prices and environmental disasters. For example, recent climate-related disasters have demonstrated the potential for environmental shocks to disrupt economic recovery and increase fiscal pressures.[47] Institutional weaknesses in governance remain another major challenge. The crisis exposed significant deficiencies in economic policymaking,

44. Dassanayake and Gamage, n. 42.
45. "Sri Lanka Poverty and Equity Brief," World Bank, October 2024, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099229201062538473. Accessed on March 5, 2026.
46. "Sri Lanka," International Monetary Fund, December 2023, p. 2, https://www.imf.org/- /media/files/publications/cr/2023/english/1lkaea2023003.pdf. Accessed on March 5, 2026.
47. Medhini Igoor, "Sri Lanka Climate Crisis and Impacts," Centre for a Smart Future, December 2024, p. 2, https://www.csf-asia.org/wp-content/uploads/2024/11/20241125_NCF_CERisks_Dataset_Final_Combined.pdf. Accessed on March 5, 2026.

fiscal oversight, and public sector accountability. Addressing these weaknesses will be essential for preventing future crises.

From a constructivist perspective, the sustainability of Sri Lanka's recovery will depend not only on economic reforms but also on the continued evolution of political norms and expectations. The narratives that emerged during the *Aragalaya* protests emphasised accountability, transparency, and democratic governance. Whether these norms will become institutionalised within Sri Lanka's political system will play a critical role in shaping the country's long-term political and economic trajectory.

CONCLUSION

The collapse of the economy in 2022 triggered widespread social unrest and led to the downfall of the Rajapaksa government, fundamentally reshaping the country's political landscape. Even as structural economic vulnerabilities and policy mismanagement were central to the crisis, the political consequences were defined by the evolving public narratives surrounding governance and legitimacy. The protest movement that emerged during the crisis reframed economic hardship as the product of systemic corruption and political failure, giving Sri Lanka the current administration, which has reiterated its governance agenda around anti-corruption, institutional accountability, and economic restructuring, and positioned itself as a reformist alternative to the political order that preceded the crisis.

Nevertheless, governing remains complex. Despite its transformative political narrative, the NPP administration has inherited a fragile post-default economy and, therefore, operates within significant macroeconomic constraints. In practice, this has required maintaining elements of the stabilisation and fiscal consolidation measures negotiated with the International Monetary Fund, even while attempting to pursue broader institutional reforms and social protection policies. This balancing act highlights the tension between reformist political mandates and the structural realities of crisis management.

From a constructivist perspective, the long-term success of Sri Lanka's recovery will depend not only on economic stabilisation but also on the NPP's ability to construct a credible and inclusive political narrative that aligns fiscal discipline with social justice. Even as the current government has not done anything pathbreaking, if it can, in the remainder of its term, translate its reformist legitimacy into durable institutional transformation and improved socio-economic outcomes, it may succeed in rebuilding public trust and establishing a more resilient political-economic order.