

2.36 Implications of the current global financial crisis from Sri Lanka's macroeconomics perspective

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ABSTRACT

The Global Financial Crisis which began in early parts of 2007 was mainly due to the loss of investor confidence in the value of securitized mortgages in the United States of America. It is among the greatest challenges to the modern world economy since the end of World War II and has been called the most serious financial crisis since the Great Depression in 1929.

This paper intends to analyze the implications of the current Global Financial Crisis and its impact on Sri Lanka's economy. Information and data were gathered through secondary sources such as published articles in journals, books, Central Bank reports and publications, articles published in the worldwide web and other relevant documents. Quantitative and Qualitative research methods were used.

As findings, at present, our economy starts feeling the burning effects of the financial crisis. We have been having a problem of high inflation for a long time and this had already contributed to significant economic issues in Sri Lanka and the Global Crisis will create further implications in our economy. Financial crisis had impacted of Sri Lankan export growth. With high unemployment and low consumption in the U.S.A and Europe, Sri Lanka will lose the demand in major export markets. Sri Lankan companies are already showing signs of the problem and foreign investment have dropped dramatically in Sri Lanka as investors move away from markets that are perceived to be high risk. Foreign remittances have dramatically dropped and there is a loss of foreign exchange. The crisis will create liquidity problems in our markets. As the conclusion the study identifies that the Global crisis had impacted Sri Lanka as a whole.

Key Words Inflation, Government Expenditure, Financial Crisis, Investments, Securitized Mortgages