World crisis shakes Sri Lankan economy

K. Ratnayake
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A detailed account given in the Annual Report of the Central Bank of Sri Lanka for the year 1998, published May 1, has confirmed that world recessionary tendencies have made inroads into the island nation, sharpening its economic crisis.

The report begins with the statement: “The economic performance in 1998 has to be assessed in the context of a highly unstable external environment where the entire world economy was experiencing the worst economic crisis since the great depressions in the early 1930s.”

This report was issued on the same day that President Chandrika Kumaratunga claimed, at the People's Alliance May Day rally, that her government was able to “revitalise the economy”. The Central Bank, notwithstanding its cautioning comment, also tries to play down the seriousness of the crisis by portraying it as a temporary phenomenon. But the facts given in the report speaks to the contrary.

According to the report the economic growth rate was down to 4.9 percent in 1998, from 6.3 percent in 1997. The bank says: “A continuation of the depressed world market conditions is likely to slow down economic growth and employment generation in 1999.” An analyst of the Institute of Policy Studies—a think tank of the country's ruling class—has said that “the growth of GDP will be around 3.8 percent to 4 percent in 1999”, countering the higher predictions of the Central Bank economists.

Slower growth in the world economy and stiff competition on the world market have pulled down the growth of Sri Lanka's foreign trade to 4.5 percent in 1998, from 6.3 percent in the previous year. “Low growth was mainly due to the shrinking international trade. The export trade sub-sector grew marginally by 0.1 percent in 1998, compared to 12 percent in 1997,” the Central Bank report noted.

Sri Lanka took in three-fourths of its export earnings from industrial exports, but the growth in these exports declined to a meagre 3 percent last year, from 14 percent in the preceding year. The growth in overall export earnings was also down to 2.1 percent. The report said: “This situation was the result of slow growth in textiles, garments and tea, and the negative growth in natural rubber and some of the rubber-based products, gems and jewellery. These sectors were affected by the lower global aggregate demand and the increased competition from the East Asian countries.”

Russia was Sri Lanka's single largest buyer of tea, the third major foreign exchange-earning commodity. When the crisis erupted in Russia in August 1998, with the collapse of the rouble, it dealt a severe blow to the island's tea exports, which led to negative growth in earnings and “constrained the profitability of the commercial banks”.

According to the Central Bank report, Sri Lanka is already a high inflation country. “A high budget deficit, high inflation and high interest rates discourage private investments and slow down economic expansion,” the report says. The official inflation rate in 1998 was 9.4 percent, but the general belief is that this rate was manipulated and the real rate was much higher.

Foreign investments were depressed due to the East Asian financial crisis, nuclear tests in India and Pakistan and the sanctions imposed on these countries by the US and IMF. Added factors are the political instability as a result of the racist war against the Tamil population in the north and east provinces of the country and workers' growing resentment of the government policies. The all-share price index for stocks traded in Colombo fell by 15 percent and the net outflow of capital was nearly US$24 million—a significant amount in the context of the island's economy.

The government was unable to privatise state banks due to the opposition of bank workers. Because of this

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the regime could not raise a US$860 million IMF loan for the year, Kumaratunga recently told a provincial election rally, viciously attacking the bank workers for the debacle.

The government spends more than 20 percent of budgetary revenue, equal to 6 percent of the GDP, for the racist war. The Central Bank has given the final figures of the war cost for 1997 and 1998—US$700 million (Rs. 47.7 billion) in 1997, rising to US$825 million (Rs. 56.3 billion) last year.

In accordance with IMF instructions, the Central Bank vehemently opposes any increase of government expenditure, except for war expenses. Last year the ceiling imposed by the IMF for the budgetary deficit was 7.5 percent of total spending. But the government was compelled to defy this restriction, mainly due to the increased war costs and tax concessions given to foreign and local investors. The Central Bank demands that the government expenditure adhere to the 7.5 percent limit this year.

The Sri Lankan ruling class is frustrated over the lack of foreign direct investments (FDI) coming in and the overall net outflow of capital. Like the bourgeoisie in other economically backward countries, the ruling class and the United National Party and People's Alliance governments in Sri Lanka offered international capital a regime of no taxes and no labour laws to aid it in exploiting the cheap labour and resources of the country.

Now the Central Bank has advised that these concessions alone are not enough, but the government must build the infrastructure to satisfy investors. At the same time “structural weaknesses” in the labour market must be eliminated, which means giving employers the right to hire and fire at will, in the name of “making the labour market more flexible”.

The Central Bank report said that the per capita income of Sri Lankan has grown to US$837 in 1998 from the 1997 level of US$814. This fact is used by the government to boast that the country is now in the “middle income group” of the world. But according to another report of the Central Bank last year the lowest 40 percent of the income group of the population received only a 13 percent share of the national income, while the richest 20 percent got 53 percent. This social polarisation will be aggravated by the now sharpening crisis.

The profit rate of the industries outside of the Free Trade Zones has fallen from 14.5 percent to 12.5 percent in 1998, even though the productivity of labour has increased by 4.1 percent. These figures demonstrate that more intensified exploitation of workers does not stop the crisis from deepening. The slashing of jobs, working and living conditions and the remaining social programs is setting the stage for a social explosion.

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