IMF insists on far-reaching market reforms in Sri Lanka

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A series of documents released by the International Monetary Fund last month in relation to Sri Lanka confirm what has been known in broad terms for a long time—that in return for a much-needed loan the Peoples Alliances (PA) government has made commitments to far-reaching market restructuring measures that will have devastating consequences for working people.

All of the documents concerning the Sri Lankan loan under the IMF's standby arrangement are now available on the IMF's website, including an IMF staff assessment, the Letter of Intent (LoI) signed by the President Chandrika Kumaratunga and the Central Bank governor, along with a document detailing commitments and an implementation timetable.

While similar documents connected to Indonesia and other countries have been published before, it is the first time that the details related to Sri Lanka have been released. The revelations provoked immediate strong criticisms by the opposition United National Party (UNP) and in the media. The rightwing UNP, which always carried out the demands of international finance capital to the letter when in government, attacked Kumaratunga for its “sellout” of the country.

Embarrassed by the exposure, the government blocked a parliamentary debate demanded by the opposition. Deputy Finance Minister G.L. Peiris issued a statement on June 8 trying to play down the government's promises to the IMF. Such agreements were “nothing new” in Sri Lanka, he said.

The documents do, however, reveal both the depth of the country's economic crisis and how the government has virtually handed over economic policy management to the IMF.

The IMF noted: **“**In late 2000, Sri Lanka came close to a foreign exchange crisis, with low reserves, large import bills due to an exchange rate level and regime ... that was no longer credible, suggesting the possibility of significant capital flight.” The two main reasons were rising oil prices and a huge increase in spending on arms needed to bolster the army leaving the country last December with just $950 million in foreign reserves or enough to cover six weeks of imports.

Lacking any other solution, the Kumaratunga government turned to the IMF, which insisted that in return for a $253 million loan Colombo had to implement market reforms delayed because of popular opposition. The IMF has already released $131 million and the remainder will take place in four installments “conditional on the observance of available performance criteria and completion of reviews.”

The IMF conditions include:

* The floating of the rupee, which previously was partially fixed by the Central Bank. The measure was implemented in January leading to an immediate devaluation of the currency, which in turn contributed to further price rises. The consumer price index has already risen by 115 points or more than 4 percent from 2,797 in January to 2,912 in May.

* Civil servants will receive no pay rise during 2001. There will be a freeze on hiring civil servants and the government pension scheme will be “reformed” to make the “civil service more affordable.” All of these demands were implemented in the budget brought down in March.

* Samurdhi, a limited poverty alleviation program under which a family receives 500 to 750 rupees per month ($5.5 to $8.25), is to be pruned back on the pretext that it should be more closely targetted for the poor. According to the IMF, the World Bank has plans for further cutbacks.

* Far-reaching restructuring or privatisation of state enterprises, including of the finance ministry and Central Bank, is proposed. In all 35 enterprises will be closed or sold off. About 14,000 jobs will be slashed at the Ports Authority of Sri Lanka. Although the government has repeatedly said that state banks would not be privatised, the IMF report noted that the state-owned Bank of Ceylon, the largest in the country, is to be listed on the Colombo stock market by the end of the year.

* Proceeds from the privatisations will be used to repay huge government debts. Domestic government borrowing rose to 8.5 percent of GDP last year even though the target was 3 percent. State borrowings now consume 32 percent of

government annual revenue in repayments. Total public debt last year rose to 97 percent of the GDP.

* A timetable has been set for abolishing administered prices. By the end of the year, the price of all petroleum products, including diesel, will be determined by the market. Already the price of diesel has doubled since early last year. Higher fuel prices will inevitably impact on the cost of transport and send the price of basic commodities soaring again. Under the new arrangements the Ceylon Petroleum Corporation, Ceylon Electricity Board and Water Board will all be compelled to raise prices to repay loans amounting to 7 billion rupees and to register operational profits.

* The current account deficit is to be reduced from last year's figure of 7 percent of GDP to 3 percent this year. As announced in the budget, the government will reduce its deficit from 9.7 percent of GDP last year to 8.5 percent this year and 7.5 percent next year. These targets will mean a drastic cut in government spending on basic services such as education and health.

* Changes are required to end the “rigidity of the labour market,” including a hire-and-fire policy to “allow enterprises to determine appropriate staffing levels”. One piece of legislation to be abolished is the Termination of Employment Act, which requires an employer to obtain the written consent of the employee or the Labour Commissioner before any dismissal.

* The general sales tax (GST), which by November will incorporate the existing National Security Levy, is to be extended to all sectors. When the National Security Levy was originally imposed, the government claimed that it was only a temporary measure while the country's civil war continued. Now the levy is to be made permanent through the GST.

* The government is to try to reduce defence spending but if it cannot then “any overspending on security-related expenditure will be offset instantaneously by further measures.” In other words, increased spending on the army will automatically result in cuts to further government services or higher taxes. Last year defence spending increased to over 5.6 percent of GDP.

* In a further concession to international capital, the remaining limitations on foreign direct investment will be phased out by December.

At a seminar in Colombo on the Central Bank's annual report, the IMF's representative in Sri Lanka, Nadeem ul Haq, kept the pressure on the government, stating: “The reform agenda remains intact. All areas remained stable without much headway. There is a concern.”

The Central Bank's report also reiterated the necessity of implementing the IMF's program, calling for the restructuring of the public sector, a reduction in the number of public holidays, more “labour reforms” and the tying of wages rises to productivity increases.

The government has attempted to portray the IMF's approval of the loan to Sri Lanka as a vote of confidence in the country's economy. But there has been little response from investors who have an eye on the country's continuing war, the ongoing political turmoil in Colombo and low levels of growth.

According to the Central Bank, the growth rate for this year will be 4.5 percent—1.5 percent lower than last year—but private analysts predict a far lower rate, amid concerns over a global slowdown.

At the end of last year, share prices were 50 percent below the peak two and a half years ago. Since then the share index has slumped further from 449 to 419 in June. In 1999-2000, foreign investors were the net sellers in the Colombo share market and the situation this financial year is unlikely to have improved.

In its documents, the IMF noted the high levels of poverty throughout the country. Excluding the war torn northern and eastern provinces, the indicators show an average of 30 percent of the population living in poverty. The highest figure in these seven provinces is 37 percent. If the north and east were included, the percentages would rise dramatically as the IMF admits, “the economic and social costs of the war have had a serious impact on both the level and regional impact of poverty in Sri Lanka.”

Once the IMF measures are implemented, however, the gulf between rich and poor will widen even further. Moreover, those hit by higher prices and the lack of jobs will also find it increasingly difficult to get access to basic services—education, health and welfare—as the government slashes spending in these areas to meet the IMF's budget targets.