New Sri Lankan government seeks to impose slump on masses

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With the economy reeling under the impact of world recession, the recently-elected United National Party (UNP) government is seeking to use the slump to justify attacks on living conditions and jobs.

On December 30 the Central Bank announced that the economy suffered an “unusual” contraction of 3.7 percent in the third quarter of last year, compared to 6.4 percent growth in the third quarter of 2000. The downturn worsened from the first half of the year, when the GDP declined 1.3 percent and 0.4 percent in the first and second quarters respectively. By some estimates, the overall contraction for 2001 may have been 0.5 percent.

The Central Bank attributed the recession to the slowing of the world economy, drought, the attack on the international airport by the Liberation Tigers of Tamil Eelam last July, and the September 11 events in the US.

In the third quarter, agricultural production fell 1.3 percent while the manufacturing and service sectors dropped by 10.5 and 2.9 percent respectively. Production of tea, the country’s main foreign exchange earner, plunged by 14.8 percent. In the manufacturing sector, textiles, clothing and leather production fell 16 percent. These are considered value-adding and employment-generating industries. “The decline is largely due to the drop in demand from major buyers in the USA and EU, which account for over 90 percent of the total demand, owing to the slowing down of their economies,” the bank admitted.

Production for the domestic market also fell in industries such as chemicals, rubber, plastic goods and petroleum.

During the first 10 months of last year, exports dropped by 9.1 percent compared to the same period the previous year. Imports declined 14.7 percent, with a sharp reduction in intermediate goods, mostly used for production. Investment goods imports plunged by 24.1 percent, pointing to a deepening crisis.

Meanwhile, the rupee’s exchange rate fell 12.5 percent last year, driving up local prices. Last year’s inflation rate rose to 14.2 percent—more than double the previous year’s 6.2 percent—registering a two-digit figure for the first time since 1996.

These figures indicate a drastic erosion of living standards for the working poor and lower middle class. The Colombo District Consumer Price Index showed that for the lowest 40 percent of income-earning households in the capital, the cost of living rose by an annual rate of 10.3 percent in December.

Rural Development and deputy Finance Minister Bandula Gunawardana presented other statistics to show that the government was in a serious situation. The government faced a 30.45 billion-rupee ($US326.45 million) revenue shortfall last year. The budget deficit had been targeted for 8.5 percent, as set by the International Monetary Fund (IMF), but increased to 10.5 percent. The total domestic debt and interest repayment for this year would be 295 billion rupees, exceeding projected government revenue of 275 billion rupees.

The minister also revealed accumulated losses of some government-owned corporations: Ceylon Petroleum Corporation—21.5 billion rupees, Ceylon Electricity Board—15.6 billion, Cooperative Wholesale Establishment—8.3 billion, Railway and Postal Department—2.3 billion and Ceylon Transport Board—2.1 billion.

These figures might be accurate or even conservative in revealing the state’s bankruptcy. But the UNP’s propaganda campaign, backed by the media, shows that the government is intent on using them to unleash ruthless attacks on the masses, privatise state enterprises and implement measures required by the IMF.

Gunawardana blamed the increased government expenditure on higher salaries and pensions for government servants, the continuation of fertiliser subsidies and subsidies on gas, milk and flour. The previous Peoples Alliance (PA) regime hastily took some of these measures in a desperate bid to avoid a complete rout in the general election.

On assuming his post, K.N. Choksy, the new Finance Minister, declared that “reform would be painful”. “We will have to ask people to bear with us for a while so that at least at the end of one year they will see a different picture.” The IMF wanted “concrete signs” of its program being implemented. Choksy said the government wanted to reduce the estimated budget deficit of 12 to 13 percent for this year.

The UNP regime is hoping to renegotiate a loan from the IMF, but the IMF has bluntly insisted that it wants action. IMF residential representative, Nadeem ul Haq, said: “There are positive signs from the government but we have seen announcements like this in the past and little action.”

On January 3, the government discontinued the subsidy on wheat flour, causing flour and bread prices to rise. The next day, it announced a freeze on recruitment to the government service. Both measures are in line with the agreement that the previous PA regime signed with the IMF.

The PA was unable to fully implement the IMF package due to popular resistance and the regime’s own political crisis. With the UNP advancing no alternative other than to implement IMF recommendations, sharp class confrontations lie ahead.