Sri Lankan government confronts deepening economic crisis

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The Sri Lankan economy is reeling under the impact of high world oil prices, a severe drought and political uncertainty stemming from fears of a return to civil war. The resultant rise in prices, erosion of jobs and pressure for further privatisation and restructuring is fuelling growing social unrest and compounding the political crisis confronting President Chandrika Kumaratunga and her unstable United Peoples Freedom Alliance (UPFA) government.

The leading Sri Lankan business journal, *Lanka Monthly Digest*, commented pessimistically in its September issue: "Not even the costly (and undeniably politically motivated) state subsidies were sufficient to put a lid on prices... the government's budget deficit has widened; the nation's trade deficit has ballooned ...; the rupee has fallen down a precipice...; Sri Lanka's total reserves have dwindled to only marginally above $US3 billion...; and the nation's economic growth forecast has been downgraded from as high as seven percent to a possible five percentage points [by the Central Bank]... Indeed, *the big picture is bleak*."

Economic commentators point to a number of danger signs. Although international oil prices have eased somewhat since reaching nearly $50 a barrel in mid-August, the higher prices have adversely affected the current account deficit. The annual cost of oil imports is estimated to have risen from the $850-900 million range to $1,200-1,300 million—an increase of roughly 40 percent.

The increased outflow of dollars to pay the oil bill, along with a rising US dollar, has caused a sharp depreciation of the Sri Lankan rupee. The exchange rate for the US dollar touched an all-time high of 104 rupees on August 2—up from 97 rupees at the beginning of this year and 98 rupees in April. During the past eight months, the rupee has devalued by 7 percent, pushing up the price of all imported goods.

According to Central Bank statistics, the trade deficit increased to $1,126 million over the first six months of 2004 as compared to $700 million for the same period last year—a 60 percent rise. The overall balance of payments deficit shot up to $300 million, according to Treasury Secretary P. B. Jayasundara. The figures for the month of August will undoubtedly reveal a further worsening.

The UPFA scored an indecisive win in the April election by exploiting popular hostility against the previous United National Front (UNF) government. Kumaratunga and her allies pledged to end privatisation, lift public sector wages, reestablish agricultural subsidies and boost welfare. Having come to power, the UPFA has reneged on virtually all of its promises and placed the burden of the present economic crisis squarely on the backs of working people.

Petrol prices increased twice in August. Cooking gas prices also increased twice last month and again last weekend, altogether by about 33 percent. The price of rice, the country's main staple, has risen by 16 percent over the past four months from 33 rupees to 44 rupees a kilogram. Powdered milk has increased by at least 6 percent. From September 1, bus fares increased by between 12.5 to 16 percent. The Ceylon Electricity Board (CEB) has requested government approval for a 5 percent increase in rates while the Water Board is also demanding a similar increase.

The government is under mounting pressure from big business to end subsidies and so bring down the ballooning budget deficit. In August, the Ceylon Chamber of Commerce called for the "immediate revision of petrol, diesel and electricity prices in the country to fully absorb the rising international prices". Corporate leaders are concerned that a blow out in the budget will lead to a sharp hike in interest rates.

Since May, 14 of the country's 25 districts have been affected by a serious drought. Rice and other crops have not been sown for the June-September season across hundreds of thousands of acres. According to official estimates, two billion rupees are needed to feed and provide other relief for the affected families—some 16 percent of the population—but the government has provided less than half that amount.

The government confronts a serious financial crisis. Funds to meet import bills, repay loans and run the administration are rapidly drying up. The failure of Kumaratunga to restart peace negotiations with the Liberation Tigers of Tamil

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Eelam (LTTE) has led to the withholding of loans by the IMF, World Bank and donor countries. Some $4.5 billion was promised at the Tokyo aid conference in June last year, but the funds were tied to the continuation of the so-called peace process and a far-reaching program of restructuring.

In April last year, the IMF promised $657 million in loans but has released only one installment of $81 million. The rest was withheld after Kumaratunga seized three key ministries from the previous UNF government last November and then dismissed the government outright in February. Following the April election, the IMF insisted that the UPFA produce a "clean plan" of economic restructuring, like the UNF's "Regaining Sri Lanka". So far Kumaratunga has failed to do so, fearing a popular backlash.

Finance Minister Sarath Amunugama may meet IMF officials during the Fund's annual meeting due to be held on October 2-3 in New York. Given the slim chance of any IMF money, the government dispatched Amunugama and a senior official Jayantha Dhanapala to meet OPEC officials in Vienna last week. Out of 844 billion rupees in foreign debts, Sri Lanka owes 538 billion rupees to OPEC countries.

Kumaratunga also sent Foreign Minister Lakshman Kadirgamar to Tokyo to obtain political assistance in pressuring the LTTE to take part in talks and to beg for financial aid. *Asahi Shimbun* reported last week that Kadirgamar "said he hoped Tokyo could try to work out 'ways and means to unlock assistance'."

Planning for the November 10 budget has begun and the UPFA is desperate for funds. It has only implemented one of its election promises: the restoration of a urea fertiliser subsidy. The UPFA pledged to provide jobs for all unemployed university and A-level high school graduates. So far, however, only 17,000 of the estimated 60,000 graduates have been given trainee appointments.

The UPFA is also backing away from its promise to increase salaries for government employees by 70 percent within three months. In a recent interview in the *Sunday Leader*, Treasury Secretary P.B. Jayasundara declared: "The government did not speak of a 70 percent pay hike as far as I am aware... Various people are speaking on a political platform of various numbers." He hinted at further subsidy cuts, saying: "The key items currently heavily subsidised are diesel and kerosene. It will certainly put a strain on the economy if we do not respond to these things."

Speaking at the Association of the Professional Bankers (APB) on August 29, Amunugama warned of austerity measures. "It is a difficult time for us. We are faced with an oil shock and a severe drought. I would describe it as a 'double whammy'." He promised a program to put things right, saying: "This will require tough and unpopular decisions and we are determined to make such decisions as they have been postponed for far too long."

The prospect of tough austerity measures in the budget confronts the Janatha Vimukthi Peramuna (JVP) with a dilemma. In office for the first time as part of the UPFA, the party's empty populist demagogy is rapidly being exposed as worthless. The JVP, which at times claims to be "socialist" and "Marxist", has absurdly tried to shift the blame onto unknown opposition sympathisers. According to the JVP, it is not the processes of global capitalism that have undermined the value of the rupee, but "a conspiracy of pro-UNF authorities in the Central Bank and government".

At the same time, the JVP is whipping up Sinhala chauvinism as another means of diverting attention from its own bankrupt policies. Addressing a JVP-linked group of Buddhist monks in late August, Professor Attangane Ratanasara Thera insisted that the government was in office not to defend living standards, but to "defend the motherland". "The UPFA government was brought to power not to provide jobs and to reduce the price of goods... but to stop division of the country."

The JVP's response demonstrates that the UPFA government has no alternative but to put the full burden of the economic crisis onto the working people. It will deal with any opposition by slandering working people as "UNF sympathisers" and stirring up divisive communal hatreds. If all else fails, the JVP and the government will not hesitate to use brute force to crush protests and demonstrations.

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