After delay, IMF approves loan for Sri Lanka

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After delaying for more than four months, the International Monetary Fund (IMF) Executive Board last Friday approved a $US2.6 billon loan for Sri Lanka. The finance comes with stringent conditions that will drastically worsen the living standards and social conditions of workers and the rural poor. Under the Letter of Intent (LoI) signed by the Sri Lankan government, the IMF will effectively take supervisory control of the country's economy.

Sri Lanka's economy is in crisis, burdened with decades of heavy expenditure on the now ended war against the Liberation Tigers of Tamil Eelam (LTTE), and a sharp decline in international investment and exports. In March, foreign reserves dropped so sharply that the country only had enough to fund one and half months of imports. The crisis was compounded by a drastic tightening in the international short-term credit market, forcing the government to apply for the IMF loan.

Approving the loan, acting IMF chairman Takatoshi Kato said: "The global financial crisis has had a significant impact on Sri Lanka's economy. Persistently high budget deficits forced the government to rely on short-term financing from international markets. The global shock resulted in a sudden stop to this financing."

Jubilant over the loan, Sri Lanka's deputy finance minister, Ranjith Siyambalapitiya, claimed that the international bank had "expressed confidence on the economy". Central Bank chief Ajith Nivard Cabraal declared it represented the "biggest victory since the defeat of the LTTE". In reality, the loan only confirms that the economy is in considerable crisis.

Under the terms of the loan, the IMF will oversee virtually all aspects of the economy. The first loan instalment—$322 million—will be released immediately with other payments phased in over the next 20 months. These will be subject to quarterly reviews to monitor the implementation of IMF conditions that include:

* Cutting the fiscal deficit from this year's target of 7 percent of GDP to 5 percent by 2011. This involves a drastic reduction in government spending, particularly in public education, health and other services.

The Letter of Intent states that subsidies will be targeted at "vulnerable sections" of society. In other words, subsidies will be axed for all but the extremely poor, depriving broad layers of working people of government assistance. Low-income families currently receive a 500-rupee monthly allowance (less than $US5). Farmers receive one variety of subsidised fertiliser.

* Market forces will decide the rupee exchange rate. The government has already implemented this requirement, resulting in a devaluation of the currency by about 6 percent so far this year. This is designed to cut imports, including essential goods, by raising prices.

* Increasing tax revenue by an additional 2 percent of the GDP, up from the current 13 percent level. Last week, the head of Inland Revenue indicated that it planned to impose a 12 percent value-added-tax on small businesses.

* Subsidies to the Ceylon Electricity Board, Ceylon Petroleum Corporation and state-owned enterprises will be ended by 2011, increasing prices for electricity, fuel and other basic commodities.

The LoI notes that the reconstruction of the North and East and the resettlement of 70 percent to 80 percent of Tamil civilians currently held in camps should begin by the end of the year.

Government ministers, however, have publicly declared that resettlement will occur only after the de-mining of the war zones and the weeding out of all LTTE cadres. These camps, in fact, are detention centres incarcerating nearly

300,000 people. The Rajapakse government plans to establish free trade zones for international investors in the North, which remains under military control.

While economic growth is predicted to be around 3 percent of GDP this year compared to 6 percent in 2008, the government admits in the LoI that it faces “key risks,” including “a sharper-than-anticipated economic slowdown in trading partner countries which would slow export growth further, a fall in remittances inflows and capital inflows”. The government declared that it was “ready to adjust policies, in close consultation with the IMF”.

Significantly, major Western powers—the US, UK, Germany and France—abstained in the vote on the IMF loan. Colombo has publicly accused Western powers, particularly the US, of blocking the loan on political grounds.

The long delay in the loan approval certainly underscores tensions between Western powers and Colombo. The US and its allies have demanded that the Sri Lankan government provide a “political solution” to the war and remove restrictions on aid agencies accessing the detention camps.

This has nothing to do with defending the democratic rights of Tamil civilians; all the major powers backed Colombo’s war. A “political solution” is aimed at affecting a compromise between the island’s Sinhala and Tamil elites to prevent further instability in Sri Lanka and neighbouring India. The US has also used the IMF loan as means to bolster its position in Colombo and to undercut the growing influence of China.

The London-based *Times* newspaper observed on July 24: “A further delay [of the IMF loan] might drive Colombo closer to China, which has been the government’s main supporter and supplied the arms that gave the army its vital military advantage... A tighter alliance [with China] would certainly be viewed with suspicion in India and by many Western strategists.”

President Mahinda Rajapakse, who is also finance minister, was due to sign the LoI. But, according to the Colombo media, the final agreement was approved by Ranjith Siyambalapitiya, who became acting finance minister when Rajapakse attended the recent Non Aligned Movement conference.

Rajapakse’s maneouvre is a pathetic attempt to disassociate himself from the IMF loan, which will inevitably become increasingly unpopular as its impact on living standards becomes clearer. Since March, when the IMF loan request was originally made, Rajapakse has repeatedly claimed that he would not bow to IMF conditions or betray “Sri Lankan sovereignty”.

An editorial in yesterday’s right-wing pro-government *Island* newspaper noted: “The IMF-prescribed economic pills, however efficacious they may be in curing the country's fiscal ills, have injurious political side effects, as evident from the predicament of the UNF government which tried its hand at cost cutting only to be kicked out by people at the next election.”

These comments indicate the nervousness in Sri Lankan ruling circles over rising discontent among working people. The government-endorsed IMF prescriptions will not bring economic recovery or political stability, but are directed at making working people pay for the economic crisis.

Rajapakse has already launched an “economic war” in the name of “nation building”. In the past year, hundreds of factories have been shut down and nearly 200,000 workers laid off. Colombo will intensify these attacks in the coming days and months and will attempt to use its repressive state machinery created during the war to suppress opposition by working people. The IMF loan will set the stage for a new period of sharp class struggle.