Sri Lanka: IMF insists on severe austerity measures

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After a 10-day inspection visit, the International Monetary Fund (IMF) mission to Sri Lanka announced last Thursday that it was "encouraged" by the government's planned measures to cut the budget deficit. However, the IMF will continue to withhold the third installment of its $US2.6 billion loan until after the government delivers further spending cuts in its long-delayed 2010 budget, now planned for June 29.

Neither the IMF nor the government has disclosed the content of their closed-door discussion or any details of the planned cuts. But the austerity measures will be in line with those being imposed by the Greek government and other debt-ridden governments around the world to offload the brunt of the global financial crisis onto working people by slashing public spending, selling off state assets and increasing taxes.

In February, the IMF withheld the third installment of the bailout loan approved last July because the government had failed to adhere to the IMF's budget deficit target of 7 percent of GDP for 2009. The deficit rose to 9.75 percent last year, primarily due to the huge military expenditures on the civil war against the Liberation Tigers of Tamil Eelam (LTTE). Last year, the public debt jumped to 86 percent of GDP, from 81 percent in 2008.

Under the terms of the IMF loan, the government has pledged to cut the budget deficit to 6 percent by 2010 and 5 percent in 2011, including by widening the tax net and gutting "loss making" state corporations. Before the latest IMF visit, treasury secretary P. B. Jayasundara said the government wanted to renegotiate the loan to set the deficit target for 2010 at 7.5 percent. The IMF team, however, insisted that the targets remain.

An IMF statement said the government was expected to "submit to parliament a 2010 budget involving substantial deficit reduction for the year as a whole, driven primarily through savings in recurrent spending". The IMF added that the government planned to "begin undertaking a comprehensive tax reform" and "improve the investment climate".

The brunt of spending cutbacks will inevitably fall heavily on social spending. Last year, interest payments accounted for 35 percent of budget expenditure and defence for 21 percent. Neither of these areas will be cut. The government cannot reduce its interest bill and will not reduce the defence budget even though the LTTE was defeated last May. The military is being maintained for use against the working class in the struggles that will inevitably erupt against the austerity program.

IMF team head Dr Bryan Aiken emphasised that the two main areas of deficit reduction are raising tax revenues and pruning recurrent expenditure. The IMF representatives met with the Presidential Tax Commission, which Rajapakse appointed last year to scrutinise proposals that include new taxes on salaries. Already, the government has increased taxes, hiking the gas price by about 14 percent early this month and the price of flour by 3 percent last week.

To slash recurrent spending, the government will target state corporations such as the Ceylon Electricity Board, Petroleum Corporation, Central Transport Board, Railways and postal services, whose combined losses have reached 49 billion rupees ($US431 million). In line with the IMF's strictures, Sri Lanka's Central Bank has advised the government to restructure these bodies. Cutting the subsidies will affect prices, as well as workers' jobs, wages and working conditions.

Other recurrent expenditures include government salaries and pensions, subsidies for farmers and the meagre welfare schemes for the poor. The ruling Sri Lanka Freedom Party has already ditched its promise, made during this year's presidential and general elections, to increase public and private sector monthly salaries by 2,500 rupees.

Fearing an eruption of social discontent, President Mahinda Rajapakse has been desperate to delay the imposition of austerity measures. Last November, he postponed the annual budget due that month, using the excuse that presidential and parliamentary elections were due this year. It was a transparent manoeuvre to win re-election before unveiling the savage attacks required by the IMF. To cover the three months from January to the end of April, Rajapakse presented a "vote of account," which did not contain any budget proposals.

Parliamentary elections were held last month but the new government has still not brought down the 2010 budget. In the first week of May, Rajapakse—who is also the finance minister—took the unprecedented step of issuing a presidential decree to allocate 440 billion rupees to cover the government's running expenses from May to July. The government and the Central Bank cited a constitutional clause giving the president powers to spend money for three months when parliament has been dissolved.

The president's decree marks a further concentration of autocratic powers in the president's hands. Rajapakse effectively barred a debate in parliament, which, according to longstanding parliamentary tradition, is meant to have the essential power to control the expenditure of state funds.

There has been some debate in ruling circles as to whether the government needs to continue with the IMF loan. Clearly Rajapakse would prefer not being shackled to IMF targets that will result in highly unpopular decisions. However, speaking earlier this month, Central Bank governor Ajith Niward Cabral, made clear that Sri Lanka has no other option. "We'd like to continue with the IMF program because it's an important anchor for us in today's day and age," Cabral said.

Although the government insists that the current foreign reserves of $5.2 billion provide a buffer, the business elite is concerned about the underlying fiscal crisis. In a comment on May 16, the *Sunday Times* declared: "There can be no controversy whatsoever that a large fiscal deficit of the magnitude reached last year of nearly 10 percent of GDP is detrimental for the economic development of the country." The newspaper called for an end to the "subsidisation" of state corporations.

The *Sunday Times* yesterday reported that the country's trade gap grew to $1 billion during the first two months of this year, and projected a $6 billion trade deficit. Last year, remittances from Sri Lankans working abroad helped to offset the trade deficit, but the *Times* argued that this year's remittances would not cover the gap. There would be a "strain in the balance of payments" unless "capital inflows in the form of aid, portfolio investments and foreign direct investments are large enough to compensate for the deficit". Any breach with the IMF would quickly result in a flight by foreign investors from the country.

The opposition parties have already lined up behind the government's plans. United National Party (UNP) economic spokesman Harsha de Silva met the IMF delegation on May 21. He told the *Daily Mirror* that the IMF would release the third loan installment "only if it was happy with the budgetary figures". While criticising the government for keeping the public in the dark, de Silva said the UNP had urged the government apply for the IMF loan "right from the beginning".

In an interview with the *Nation*, de Silva added: "What we are saying is that the deficits must be reduced and if the IMF is also saying that, the more the merrier… The government is also wanting to get the IMF loan and they are bending backwards to get it. That means we are both on the same page on that." Underlying this ruling class consensus is agreement that the working class must pay the price for the crisis.