Sri Lankan government deepens IMF austerity measures

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The International Monetary Fund (IMF) this month released the seventh instalment of its standby loan to Sri Lanka, publicly endorsing the government's performance in slashing spending. Just three days before the IMF's April 4 release, the government increased fuel prices by an average of about 8 percent, in accordance with IMF prescriptions, further driving up the cost of living for working people.

This month's transfer of $US218 million brought the total IMF disbursement to $1.75 billion. President Mahinda Rajapakse obtained a loan of $2.6 billion in July 2009 to avert an acute balance of payment crisis produced by the global financial crash and the cost of the regime's renewed war against the Liberation Tigers of Tamil Eelam (LTTE). Since then the government has been making the working class pay for the resulting debt by increasing taxes, cutting price subsidies on essential goods and privatising public utilities.

As a result of the government's adherence to budget deficit reduction targets, the IMF announced that it would conduct its economic reviews every six months, rather than every three. "The Sri Lankan economy continues to make progress under the Fund-supported program," the IMF statement declared. Koshy Mathai, the IMF's residential representative, reiterated: "There is no indication of problems that would prompt us to believe that the targets will not be met."

The IMF statements stand in contrast to boasts by Rajapakse and his associate, Central Bank governor Ajit Nivard Cabrral, that the government is not implementing IMF dictates. For all the government's denials, aimed at assuaging public discontent, it is faithfully implementing all the IMF's austerity measures.

The latest Central Bank figures show that the budget deficit fell to 7.9 percent of gross domestic product (GDP) last year, just below the IMF-set target of 8 percent, and a sharp reduction of 2 percentage points since 2009. The target for this year is 6.8 percent, and by 2012 the deficit must be cut to 5 percent, indicating the scale of the attacks on living standards still to come.

Despite the devastating floods at the beginning of the year that destroyed homes, crops and infrastructure across numbers of districts, particularly in the island's East, the IMF was confident that the government's relief measures would not compromise the deficit reduction program. The fund said the handling of "flood-related expenses by reallocating and reprioritising expenditure within the existing budget will help maintain the program's deficit target for 2011."

One million people were affected by the floods and about 300,000 were displaced, but people have been sent back to their homes with little or no assistance. By the government's own estimates, the floods caused 66 billion rupees worth of damage ($US600 million) across several provinces, yet only 33 billion rupees was allocated for relief and reconstruction, and this was all to come by cutting other public spending. The government has not yet revealed details of where these cuts will be made.

Although the IMF praised the "progress" of the Sri Lankan economy, it admitted that the government faced a difficult balancing act because of rising prices. Mathai stated: "We expect inflation to increase over the next two months [but] we don't advocate immediate tightening of monetary policy that would slow down the economy."

In March, the cost-of-living index rose by 8.6 percent above the level of a year earlier—a 26-month high—making Sri Lanka's inflation rate one of the worst in Asia. While the government and the employers, assisted by the trade unions, have refused to increase wages, food prices rose by 10 percent last year.

On April 2, the government raised petrol, diesel, kerosene and domestic gas prices by an average of 7.5 percent. Kerosene prices, which particularly affect plantation workers and the rural poor, were lifted 20 percent.

The government blamed unrest in the Middle East and the war in Libya for its fuel price hikes. Certainly, the turmoil across north Africa and the Middle East has pushed up oil and gas prices internationally. However, the Rajapakse government has slashed the fuel subsidies in line with the requirements set out by the IMF in 2009.

The IMF indicated that further energy price increases were in store over coming months. It said the government had promised to bring the Ceylon Electricity Board and the state-owned Petroleum Corporation to “break-even point” by the end of this year. That inevitably means pushing up electricity and fuel prices for ordinary people.

At the same time, as in other countries, the IMF insisted that the government had to step up its protection of corporate interests. The fund’s statement added: “Financial sector reforms will continue to focus on strengthening the resilience of this sector, and expand the scope of financing options available to the private sector by increasing the depth of the corporate bond market and improving the functioning of the stock market.”

This “reform” program has further enriched the wealthy and increased social polarisation. An analysis by TKS Securities released in March showed that 221 firms out of the 247 listed companies on the Colombo Stock Exchange recorded combined profits of 123 billion rupees ($US1.15 billion) last year. This was a phenomenal 140 percent increase over 2009, according to the Sri Lankan *Daily FT*.

Bank, finance and insurance corporations earned a combined 33 billion rupees, an 87 percent increase over the previous year. Companies in the telecommunications, plantations, investment trusts, hotels and travel, power and energy sectors recorded an overall increase of more than 100 percent. Profits in some industries soared even higher—motor vehicles by ten-fold, plantations nine-fold and hotels and travel nearly four-fold.

A *Sunday Leader* analysis of Colombo Stock Exchange data in January showed that as a result of soaring profits and share prices, 20 rupee-billionaires held more than 122 billion rupees ($US1.1 billion) between them. Apart from this tiny wealthy elite, an upper middle class layer has directly benefited from this stock market boom.

At the other social pole, the official poverty line stood at an extraordinarily low figure of 3,328 rupees per month in February. This is equal to 111 rupees or one dollar per day, which is just enough for one meal a day. According to the conservative government figures, about 7.7 percent of the population, or more than 1.4 million people, were living below this line.

Far from providing evidence of a decline in poverty, as the government claims, this estimate provides some indication of the depth of impoverishment in the country. The pro-market restructuring and austerity measures being imposed by the Rajapakse government at the behest of the IMF are setting the stage for the eruption of sharp class struggles.