IMF releases loan after Sri Lankan government imposes austerity measures

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On April 2, the International Monetary Fund (IMF) released a $US426 million loan instalment to Sri Lanka as part of its $2.6 billion standby loan to avert the country's balance of payments crisis. While the overall funding was approved in July 2009, the final two loan instalments were withheld in September on the grounds that the Sri Lankan government had failed to fully implement IMF demands.

An IMF press release said the agency had decided to make the instalments available because Colombo had introduced "a broad package of measures to rein in the current account deficit, stem the reserve loss, and bolster fiscal performance." The IMF had demanded higher interest rates, an 18 percent cap on credit growth, increased electricity and petroleum prices, devaluation of the rupee and a government promise to cut this year's budget deficit to 6.2 percent of gross domestic product.

The agency's press release made clear that more socially-regressive measures would be required. It called on the government to maintain "structural reform" and ensure that the state-owned energy enterprises were placed "on a more sustainable trajectory." In other words, more job cuts and higher electricity and fuel prices were needed.

Two days before the IMF announcement, the government increased the taxes on alcohol, cigarettes and all imported vehicles—from 61 to 100 percent for motorbikes, 200 to 270 percent for small cars and 291 to 350 percent for larger vehicles. In 2010, following heavy lobbying by vehicle importers, the government reduced car import taxes by 50 percent.

On the day of the IMF's announcement, President Mahinda Rajapakse, who is also finance minister, told a hurriedly convened meeting of senior state officials that further spending cuts were required. No details have been released but key social services are expected to be targeted. According to recent reports, Colombo is now considering a 10 percent rise in gas prices.

Contrary to the IMF's claims, the government's austerity measures have not resolved any of Sri Lanka's economic problems, but only deepened the crisis. The growth rate is declining, and the rupee continues to fall in value. In January, the trade deficit hit $1 billion, an almost 50 percent increase compared to the same time last year. Since early February, the rupee has been devalued by 15 percent, with the exchange rate now hovering at around 130 rupees to the dollar.

On March 29, Sri Lanka's Central Bank announced that it "may stop supplying dollars to pay for oil import bills from May." This move will place further pressure on the rupee and, in line with the IMF's restructuring demands, force the debt-ridden Ceylon Petroleum Corporation (CPC) to operate without any government help. The result will be another round of fuel price hikes and job destruction.

Treasury Secretary P.B. Jayasundera recently boasted that the fuel price increases, imposed in February, had reduced CPC losses to 60 billion rupees, down from 200 billion rupees. The impact has fallen most heavily on plantation workers and the rural and urban poor. At least 400,000 Sri Lankan families use kerosene oil for lighting. Many thousands of fishermen use kerosene and diesel to power their boats.

The fuel price hikes produced immediate increases in transport charges and other staples, including bread and other bakery products—which rose by 10 to 15 percent in March. Milk powder importers are threatening to stop importing if the increased government taxes go ahead.

The Central Bank last month revised its 8 percent growth forecast for this year down to 7.2 percent. "It doesn't make sense to project high growth," a leading economist recently told Sri Lanka's *Sunday Times*, "when

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all our key buyers have lowered their forecasts due to a global financial crisis."

Sunday Times economic writer Nimal Sanderatne commented in a March 24 column that although government policies might reduce the trade deficit, they would not "wipe out the trade gap." While the government sought to boost its earnings via higher taxes and service prices, and increased capital inflows, the outcome was uncertain, he pointed out, because of the global economic downturn.

During 2010, 84 percent of Sri Lanka's $4.9 billion trade deficit was offset by remittances from Sri Lankan workers overseas to their families. Last year, the trade deficit almost doubled to $9.7 billion and remittances were only able to bridge 53 percent of the gap.

Sanderatne pointed out that the Middle East, where 60 percent of remittances originated, was undergoing mass unrest, heightening geopolitical tensions that would reduce income. He noted that remittances from the US, Europe and East Asian countries were being affected as well.

Sanderatne explained that while tourist profits had increased in Sri Lanka during the past couple of years, these earnings were also being buffeted by global economic uncertainties.

The Rajapakse government previously claimed that international indicators rated the Colombo Stock Exchange (CSE) as the world's "best performing stock market" in 2010. However, from mid-2011 the stock exchange index dropped precipitously, hitting the 5,000 mark in January and February this year.

The latest round of IMF demands will be slavishly implemented by Colombo, inevitably producing a new round of anti-government struggles. The Rajapakse regime is already preparing police-state measures and an ideological campaign against workers and the rural masses. Claiming that there is "a Western conspiracy" against the island nation, the government is branding any protests as unpatriotic.

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