Sri Lanka: Slowing economy sharpens government austerity drive

Saman Gunadasa
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A drop in Sri Lanka's economic growth rate this year is driving President Mahinda Rajapakse to intensify his government's budget-cutting measures, even as surveys show that about half the population is already struggling to pay for food and housing.

The International Monetary Fund (IMF) and Asian Development Bank (ADB) have set their growth forecasts for 2012 at 7-7.5 percent, undermining the government's boasts that it would deliver more than 8 percent growth for the third consecutive year. According to the ADB's *Asian Development Outlook 2012* report, the slowdown is "partly due to slower growth in industrial countries and attendant weaker growth in global demand and trade, and partly due to domestic factors."

Despite an official 8.3 percent economic growth rate last year, the living conditions of the working people and the rural poor are deteriorating, and the reduced forecast means that the social distress will sharpen. Central Bank chief Nivard Cabral signalled deeper austerity measures to meet the IMF's budget strictures. He told Reuters: "Sri Lanka will face a challenge in meeting this year's budget deficit target (6.2 percent) as the recent monetary and fiscal tightening measures may hurt revenue growth."

Last month, on the dictates of the IMF, the government increased taxes on alcohol, cigarettes and imported vehicles, following drastic fuel price hikes in February, and a devaluation of the rupee. These measures triggered a wave of price increases for all imported items.

In a document released last week, the IMF demanded a further tightening of fiscal policy via the ongoing devaluation of the currency and instructions to banks to reduce runaway credit growth. "With regard to exchange rate policy, it is vital that the government consolidates the transition to a genuinely flexible exchange rate system," it said.

The currency devaluation and credit crunch are aimed at cutting imports to narrow the country's trade deficit. The *Sunday Island* economic columnist R.M.B. Senanayake wrote on April 22: "We cannot afford a trade deficit of nearly $10 billion like last year. Our official foreign exchange reserves have fallen to $6 billion from an earlier $8 billion."

The government is already planning further attacks on working-class living standards. An unnamed top government official told the *Sunday Times* on April 15: "[T]reasury is considering a 10 to 15 percent hike in the price of essentials, including food items, drugs, energy and transport, as a result of a rupee depreciation and a high trade deficit this year. Taxes are expected to increase on chillies, chickpeas, dhal, cowpea, sugar, and milk powder. Prices of gas, petrol and diesel are likely to rise, while train fares and telephone rates would also be increased."

Prominent economists have suggested that official economic data, including for growth, inflation and foreign investments, has been manipulated to present a falsely rosy picture. A closer examination points to an artificial debt-fuelled boom that is now starting to unravel.

A Central Bank report stated that in 2011 the government spent more than 400 billion rupees ($US3 billion) on infrastructure development. "Major infrastructure projects implemented by the government included port and air port development, road construction and power generation projects," it said. "Private sector construction activities increased due to construction of both commercial and residential buildings."

While these constructions were meant to mesmerise

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ordinary people, the ports, condominiums, luxury hotels and highways were built to facilitate the profits of big businesses, not the welfare of the working masses. In fact, many poor people have been evicted from their dwellings and deprived of their livelihoods to make way for these ventures.

The Central Bank has created the conditions for this "growth" by selling foreign currency reserves and providing low interest credit to the government and the corporate elite for "development" activities. These reserves were mainly comprised of borrowed money, especially from a $US2.6 billion stand-by loan from the IMF in 2009.

According to the Central Bank report, credit to the private sector increased by 34.5 percent in 2011. Net credit to the government rose by more than 30 percent. The government's total debt jumped 12 percent to 5,133 billion rupees.

These "development" activities funded by this large pool of credit have helped generate a balance of payment crisis, doubling the trade deficit to $10 billion in 2011.

Apart from the infrastructure boost, most of the other components of the economic growth in 2011 were highly vulnerable to the deepening global economic crisis. These include the export-oriented garment industry, the tourism-related hotel and restaurant sector and the growing telecommunications industry.

According to the ADP's *Asian Development Outlook 2012* report, export growth is expected to halve to 11 percent in 2012, "mainly owing to weaker demand, especially from Europe" and "growth in tourism related inflows will take a hit." In January, export earnings fell by 0.57 percent compared to the previous year, indicating a declining trend.

Signs of acute social stress are becoming more obvious. In a news brief headlined "Economic crisis hitting poor and middle classes, small businessmen and farmers," the *Sunday Times* of April 8 reported that rising interest rates and a credit squeeze had hit the middle class and poorer people.

A survey published in Washington by Gallup on April 6, entitled "More Sri Lankans suffering since war ended," said about one-half the population lacked money for necessary food and shelter. The survey was presented as showing the cost of "healing" since the 2009 military defeat of the separatist Liberation Tigers of Tamil Eelam. In reality, its findings demonstrate the fraud of Rajapakse's claims that the end of the war would produce prosperity for ordinary people.

Based on face-to-face interviews with 1,000 adults, aged 15 and older, Gallup reported: "One in five or more Sri Lankans have rated their lives poorly enough to be considered 'suffering' over the past three years, underscoring the challenges many continue to face as their nation heals."

The report added: "[I]n fact, more Sri Lankans than ever before are struggling to afford the basics. A majority of Sri Lankans (53 percent) said in 2011 that there were times in the past 12 months when they did not have enough money to buy food that they or their families needed, and nearly as many (46 percent) said they struggled to afford adequate shelter."

Gallup compared the Sri Lankan results with those in war-torn Afghanistan. "[T]hese are the highest percentages Gallup has measured in the country since 2006 and they rival those in Afghanistan—45 percent of Afghans said they lacked necessary money for food in the past year, 52 percent said the same about adequate shelter—as the highest in the region."

The devastated living conditions of the Sri Lankan working masses will inevitably worsen further as the government prepares to implement the demands made by the IMF in return for June's scheduled release of the last $400 million tranche of the $2.6 billion standby loan.

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