Sri Lanka government faces rising debt burden

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The Sri Lankan government began 2013 by trying to paint a rosy picture of the economy. Central Bank governor Nivard Cabraal, delivering his Road Map 2013 speech on January 2, claimed per capita income would rise to $US4,000 by 2016. He was joined by Treasury secretary P. B. Jayasundara in predicting growth of 7.5 percent in 2013, up from 6.5 percent in 2012.

However, with the country's major exports—tea and garments—falling and foreign direct investment (FDI) last year reaching only half the government's $2 billion target, these official forecasts depend heavily on securing loans, particularly for government spending on infrastructure.

On January 4, Jayasundara told a media conference that tourism, urban development, construction and public investment programs would support the growth in 2013. These sectors cannot expand without increased government borrowing, the repayment of which will mean intensified austerity measures against the working class.

Already, according to the government's appropriation bill, debt repayment expenditure in 2013 will rise to 1,154 billion rupees ($US9.1 billion) from 914 billion rupees in 2012, a 26 percent increase. Now, the government is seeking a further $1 billion loan from the International Monetary Fund, after obtaining a $2.6 billion loan in 2009.

The Rajapakse government may also have to rely further on China, which has become one of the country's largest sources of aid, loans and investment over the past decade, intensifying tensions with the US and its allies.

The economy, especially the shaky balance of payments, is also heavily dependent on remittances from tens of thousands of Sri Lankan contract workers labouring under oppressive conditions, mainly in the Middle East. According to Central Bank estimates, remittances reached $US6 billion in 2012, up almost 17 percent from 2011, and equivalent to 35 percent of total foreign exchange earnings. This inflow, however, is highly sensitive to conditions in an increasingly unstable Middle East.

Despite the official claims of strong growth prospects, both FDI and private domestic investment are expected to decline due to the constitutional crisis produced by the government's impeachment of the country's chief justice. The Joint Business Chambers warned that the political crisis was "likely to adversely affect the country's development process."

In his Road Map 2013 report, Cabraal acknowledged that the country's debt rose to 81 percent of gross domestic product (GDP) in 2012, up from 78.5 percent in 2011. By last September, the government's total outstanding loans were 6,262 billion rupees, a 23 percent increase over the previous year. Of that total, external foreign currency loans accounted for 2,981 billion rupees, up by nearly 33 percent.

Global ratings agency Standard and Poor's summarised the situation last month, saying Sri Lanka was constrained by "weak external liquidity, moderately high external debt, fundamental fiscal weaknesses, the attendant high public debt and interest burden, and political institutions that, in some cases, lack transparency and independence."

Jayasundara hailed the government's containment of the budget deficit to 6.2 percent of GDP in 2012 as a key achievement. He predicted that the deficit would fall to 5.8 percent in 2013, meeting the targets set by the IMF.

This result has been achieved by hitting the working class with increased indirect taxes on goods and services, reduced subsidies and higher prices for fuel, electricity and transport, while corporate taxes have declined. According to the Sri Lanka Human Development Report 2012, compiled by the UN and the Institute of Policy Studies, indirect taxes account for over 80 percent of total tax revenue.

Jayasundara listed “challenges” to growth in 2012 that had included economic slowdown in the US, EU, India and China, as well as the US embargo on Iran (which affected Sri Lanka’s long term contract to purchase Iranian oil), high fuel prices, drought, floods and a drop in tea production. He claimed that in 2013, however, “favourable weather would have a positive impact, along with recovery in major economies globally.” Contrary to both his predictions, the recent floods throughout the island have devastated agriculture, and the global recession is deepening.

All the indications are that the decline of exports throughout 2012 will continue in 2013. According to the latest statistics, during the first 11 months of 2012, exports declined by 6.6 percent, compared to the previous year. Garment and tea exports declined by 4.6 and 6.2 percent respectively. Total exports fell from 33 percent of GDP in 2000 to 17 percent in 2011.

Jayasundara said the government planned to curtail public sector expenditure by handing over the management of government-owned corporations to private companies. This initial step toward privatisation will destroy thousands of jobs and increase the costs of services, in order to enrich the private operators.

Cabraal expressed displeasure at the continuing flow of government credit to public corporations, which he said had risen by 63 billion rupees in 2012, especially to the Ceylon Petroleum Corporation and Ceylon Electricity Board. “There has to be a change and this can only come about if prices are allowed to be adjusted [increased]. This is something we hope the government would seriously consider this year,” Cabraal said.

Jayasundara’s and Cabraal’s remarks point to the savage austerity measures that the Rajapakse government is planning to impose as the country’s debt mountain grows. This offensive can be answered only by the working class, leading the oppressed masses, in a struggle to overthrow the profit system, and establish a workers’ and peasants’ government based on a socialist and internationalist program.