IMF demands deeper austerity measures in Sri Lanka

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The International Monetary Fund (IMF) has rejected the Sri Lankan government's request for a new $US1 billion loan, insisting that it impose even more drastic austerity measures on the working class.

Having just received the final installments of a $2.6 billion bailout loan obtained from the IMF in 2009, the Sri Lankan treasury requested further credit in January to help cover the government's 2013 budget deficit.

On February 13, however, the Sri Lankan Central Bank issued a press release saying: "The IMF has indicated that the Fund may not be in a position to consider any direct or indirect budget support to Sri Lanka."

At a press conference on the same day, John Nelmes, head of a visiting IMF mission, said that he had asked the government to reduce its budget deficit to 5.8 percent of gross domestic product (GDP) this year, as it had previously promised. He warned of declining export earnings and the necessity to reduce government debt, now 80 percent of GDP.

In particular, Nelmes called for "reforms" to reduce the losses of the Ceylon Electricity Board (CEB) and Ceylon Petroleum Corporation (CPC)—that is, reduced subsidies, higher prices and privatisation. He also urged the broadening of tax revenue.

In a comment asking "what exactly is going on?" the London-based *Financial Times* commented that the government had achieved only half its target of $2 billion of foreign direct investment during last year. "Yet despite the need for the funds," the planned loan deal seemed to have been "undone by two major disagreements."

The first disagreement was that the government had asked "for help fixing its fiscal problems rather than just the balance of payments." The second was that the country's finance ministry "was eager to get hold of the money" but "the central bank was keen to seek alternative funding sources."

The newspaper cited a warning by Harsha Da Silva, an opposition United National Party spokesman, that the loan refusal would mean that the government could no longer introduce the required "economic reforms" on "a staggered basis." In other words, the government must now accelerate its attacks on the social conditions of workers and the poor.

Nelmes said: "The government has agreed on the required reforms," but said "implementation would be at their own pace." The government's major concern is the prospect of a social explosion, even though the trade unions have helped it to block working class struggles. The IMF, however, has made clear its dissatisfaction with the government's "pace."

The government faces a serious financial crisis. The *Business Times* wrote at the weekend that the "Treasury is struggling to meet day-to-day expenses of the government." It has borrowed 8 billion rupees ($US6.3 million) from the Telecommunication Regulatory Authority and 800 million rupees from the National Lotteries Board.

Just 10 days after the IMF loan rejection, Petroleum Minister Anura Priyadarshana Yapa announced another increase in petrol and diesel prices, taking them to record levels. The cost of a litre of gasoline rose by 1.9 percent to 162 rupees and diesel by 5.2 percent to 121 rupees. Furnace oil rose by 25 rupees. Last December, the government increased the petrol price by 10 rupees, on top of rises of about 31 percent in petrol, diesel and kerosene last February that triggered mass protests among fishermen. The government also foreshadowed a 25 percent increase in electricity charges.

The government's justification was that the CPC lost 160 billion rupees in 2012 and the CEB is projected to

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lose 90 billion rupees this year. Yapa said the price rises would only partly cover the losses, indicating further increases in the pipeline.

According to a *Sunday Times* economics columnist, debt servicing will be 1,154 billion rupees, or more than 90 percent of total estimated budget revenue for this year. The government has refused to reveal the exact debt total, but according to some estimates it could be as high as $US28 billion.

The Central Bank claims that Sri Lanka is in a comfortable position, with foreign exchange reserves of $6.8 billion at the end of 2012, but most of the reserves consist of loans. The *Sunday Times* columnist wrote: “The net reserves are perhaps much less, in the region of $3 billion, which is a risky reserve.” It was “most likely” that the bank’s foreign exchange reserves were “inadequate to meet its current commitments.”

During 2012, export income fell by 7.4 percent to $9.7 billion. Apparel and tea exports declined by 4.8 percent and 5.3 percent, respectively, mainly due to the downturns in the US and EU, Sri Lanka’s main export markets.

According to the IMF, tax revenues have fallen to below 11.5 percent of GDP, “among the lowest in the region.” The government has been reducing corporate taxes, now down to a maximum of 28 percent. Big corporate investors also enjoy massive tax holidays and even lower tax rates.

By contrast, taxes on the goods and services are continually increasing. According to the Sri Lanka Human Development Report 2012, compiled by the UNDP and the Institute of Policy Studies, the country’s reliance on indirect taxes for more than 80 percent of tax revenue “shifts the burden of taxation onto the poor.”

The government’s measures have fuelled cost of living increases, with the official annual inflation rate, which understates the impact on ordinary people, rising to 9.8 percent in January. The IMF said the inflation rate had since reached double digits.

The IMF’s prescription of slashing the budget deficit, accelerating privatisation and other “reforms” and raising tax revenues will have devastating consequences for jobs, working conditions, pensions and basic social rights.

A warning must be taken from Greece, where the IMF, together with the European Union and the European Central Bank, have dictated drastic cuts in wages, welfare and social spending. As a result, the official unemployment rate is 27 percent, and 62 percent among young workers, with one-third of the population living in poverty.

In Sri Lanka, where working people and the poor are already impoverished, the IMF’s austerity measures will have drastic social consequences.

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