Former Sri Lankan president warns of government financial bankruptcy

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Former President Chandrika Kumaratunga last week warned that the Sri Lankan government was financially bankrupt to the point of being unable to afford public servants' salaries.

Speaking at a meeting organised by the Sri Lanka Development Officers union, Kumaratunga declared: "[T]he government is not able to pay state sector salaries to everyone. It is hard to expand the [state] sector, and some of the employees have no work."

Kumaratunga did not elaborate further. However, she blamed the financial crisis on the "lack of transparency," or corruption, in projects carried out by the previous government of President Mahinda Rajapakse.

Finance Minister Ravi Karunanayake dismissed Kumaratunga's remarks as "baseless," declaring that the government had "enough money." At the same time, he admitted the government's debt service expenditure was "extremely high" at 1,290 billion rupees ($US9.7 billion), compared to revenues of 1,352 billion rupees. In other words, debt servicing consumes 95.4 percent of the government's revenue.

Kumaratunga played a leading role in engineering Maithripala Sirisena's insertion as the new president in this January's election. She and Prime Minister Ranil Wickremesinghe (then opposition leader) acted in concert with Washington to oust Rajapakse and install a pro-US and pro-Indian regime in Colombo.

Kumaratunga now collaborates directly with Sirisena and Wickremesinghe in what is known as the "troika." It takes all the government's major political decisions. Her comments were clearly aimed at pinning the blame for the government's financial problems, and the austerity measures that will follow, on Rajapakse in the lead up to the imminent announcement of a parliamentary general election. She was seeking to dampen the public campaign by Rajapakse's allies for him to make a comeback as a prime ministerial candidate.

Kumaratunga's statement underscores the nervousness in ruling circles about the depth of the country's economic crisis. It is also a warning to the working class and poor of the further brutal attacks that will be conducted against their living conditions and social rights after the election, whoever forms the next government.

Highlighting the government's financial strains, over a month ago Finance Minister Karunanayake sought parliamentary approval to issue treasury bills worth 400 billion rupees. However, the opposition, which commands a parliamentary majority, blocked the bill, claiming that it would permit the government to print money, worsening inflation.

In March, during Indian Prime Minister Narendra Modi's visit to Colombo, the government signed a currency swap agreement with the Federal Reserve Bank of India for $US1.5 billion. Two weeks ago, the Colombo government drew $400 million under this agreement, in effect to cover debt repayments and other financial commitments.

The previous Rajapakse government, which developed close ties with Beijing, obtained massive Chinese loans for investment projects. Washington's backing for Rajapakse's removal was aimed at undermining Beijing's influence in Colombo. Since Sirisena has taken office, relations with China have soured.

The Sirisena government put China's investments under review, including the huge $1.4 billion Colombo Port City (CPC) project. While other investments have been cleared, the CPC has not yet been approved. As a result, the cash-strapped Sri Lankan government is unlikely to have the same level of access to Chinese loans and finance as it did under Rajapakse.

The government is also under pressure from the International Monetary Fund (IMF), which dealt a blow in March by turning down a request for a $US4 billion loan to restructure Sri Lanka's debt repayments.

After reviewing the country's economic performance late last month, the IMF Executive Board issued a press release on May 5 which declared the "economic outlook of the country is broadly stable but set against heightened downside risks." After noting economic growth last year of 7.4 percent—the highest since 2012—it forecast a sharp drop to 6.5 percent this year.

The IMF pointed to "lower public and private sector investments due to budget cuts and uncertainty of policy environment" and the impact of "slower economic recovery in Europe." The EU is one of Sri Lanka's two largest export markets, the other being the US.

The IMF admitted that its demands for budget cuts were a major factor in forecasting lower growth this year. However, this did not deter the IMF from insisting that Sri Lanka adhere to budgetary targets, just like Greece and other countries where austerity measures have had devastating social consequences for the working class.

The IMF's budget deficit target for Sri Lanka last year was 5.2 percent of gross domestic product (GDP). However, for the first time since 2009, the government breached that target. The deficit rose to 6 percent of GDP. The IMF warned that without a huge effort to increase tax revenue, this year's 4.4 percent budget deficit target will not be achieved.

Last year's economic growth rate of 7.4 percent was mainly due to infrastructure projects. A comment in the Colombo-based *Sunday Times* noted that "although such investment generates GDP growth," long-term benefits "are too little compared with their costs." Pointing to the high foreign debt, it warned that "such growth creates serious fundamental weaknesses in the economy."

As a result of increased borrowing, the foreign debt increased from $39.9 billion to $43 billion last year. Debt servicing will be equivalent to 20.2 percent of export income in 2015. Underscoring the balance of payments problems, the Sri Lankan trade deficit rose to $8.3 billion in 2014 from $7.6 billion in 2013.

The Central Bank of Sri Lanka 2014 annual report, issued this month, noted that the worsening international economic crisis would affect export markets. Pointing to tea exports in particular, it stated: "If the Russian ruble continues to depreciate further in 2015, it will have a negative impact on Sri Lanka's tea exports since Russia is the main single buyer of Sri Lankan tea while demand for tea in the Middle East market could also decrease due to the continued decline in the oil income of these economies."

Regardless of the promises that will be made in the upcoming parliamentary election campaign, the next government will seek to impose the burden of the country's worsening economic crisis onto working people.

Speaking at a Colombo business forum on Monday, Eran Wickramaratna, deputy minister of investment promotion, spelled out the two-faced character of any election pledges. He told his business audience that under a new government, "the public service needs a sea change in terms of efficiency to support the progression of the private sector"—a signal for deep cutbacks and further pro-business measures.

Wickramaratna said pro-market reforms must be implemented in rural areas as well. "These reforms have still not happened as the farmer community is a large voter base, but such measures will be quite necessary in the future," he said.

While Wickramaratna speaks for the government, the entire political establishment, including all the opposition parties, is committed to the same austerity agenda.