IMF attaches harsh austerity measures to Sri Lankan bailout

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The International Monetary Fund (IMF) announced an agreement on Monday with the Sri Lankan government on a "reform program," in return for a bailout loan to avert a balance of payment crisis.

The IMF did not specify the amount of the loan facility but the Colombo government indicated it could be between $US1 billion and $1.5 billion. The deal will be finalised for a 36-month Extended Fund Facility (EFF) program during a further two weeks of discussion with the IMF.

An IMF team led by Todd Schneider was in Colombo for nearly two weeks from March 31 to "review" the economy and discuss the government's loan request. Prime Minister Ranil Wickremesinghe was personally involved in the final discussions, in order to convince the IMF his government would implement the required "reforms."

Announcing the agreement, Schneider said Sri Lanka's "fiscal deficit expanded, public debt increased and the balance of payment position deteriorated."

Official figures provide some indication of the precipitous fiscal crisis. Foreign loan repayments due this year total more than $4.56 billion, around 6 percent of gross domestic product (GDP). Gross foreign reserves stand at $7.3 billion.

The country's outstanding debts rose by 12 percent to $57 billion during the first nine months of last year, with foreign debts alone increasing by 5 percent to $22 billion. By the end of 2015, the annual balance of payments deficit had reached $1.5 billion.

According to Schneider's statement, the IMF-Sri Lankan government agenda includes "improving revenue administration and tax policy; strengthening public financial management; state enterprise reforms; and, structural reforms to enable a more outward-looking economy, deepen foreign exchange markets, and strengthen financial sector supervision."

These so-called reforms will undoubtedly produce further attacks on the living standards of working people, by increasing prices of essentials, slashing subsidies, eliminating jobs and pension rights, and cutting public education and health.

The IMF's main emphasis was on a drastic reduction of the budget deficit from 7.2 percent last year to 5.4 percent this year. The government has to reduce the deficit to 3.5 percent by 2020.

On March 8, Wickremesinghe unveiled a value added tax (VAT) increase from 11 to 15 percent and other tax proposals. However, at President Maithripala Sirisena's request, the government postponed these measures until the end of this month, fearing they would provoke outrage among workers and the poor during the festival season in April.

Finance Minister Ravi Karunanayake said the government would look at privatising "non-strategic" investments and listing some state-owned bodies on the Colombo Stock Exchange within three months.

The IMF's reference to "strengthening public financial management" means slashing subsidies and cutting expenditure on public services such as health and education. In preparation for the IMF talks, the government reduced subsidies for flour, increasing the price by 8 percent for one of the main staple foods of workers, particularly in the plantations.

From this year, the government has already stopped supplying fertiliser at subsidised rates. Thousands of farmers around the country demonstrated against these cuts.

The IMF's insistence on an "outward looking economy" and "deepening foreign exchange markets" requires a totally market-driven local currency to make Sri Lankan exports cheaper on global markets. This will further erode workers' real wages. During the past eight months, since it was officially floated by the Central Bank, the rupee has devalued by nearly 10 percent, going from 135 rupees to 150 to the US dollar, increasing the prices of imported goods, including essentials.

Sri Lanka's economy is being battered by the global slump. Its export earnings decreased by 5.6 percent in 2015. Income from garments and textiles fell by 12.8 percent in December, reflecting the recessionary tendencies in the key markets of the United States and the European Union. Remittances from Sri Lankans working overseas declined by 12.8 percent—one reason being the tensions and the conflicts stoked by US imperialism in the Middle East.

The crisis is such that Central Bank Governor Arjun Mahendran told the *Sunday Observer* the government was waiting for the IMF loan approval in order to use it as a guarantee to seek $5 billion worth of loans from other sources. Those sources include the World Bank, Asian Development Bank, Japanese international lenders and Indian and Chinese banks.

The government has already initiated, as temporary measures, a $1.5 billion currency swap from the Reserve Bank of India and a $1 billion currency swap from Central Bank of China. It also announced $3 billion in commercial borrowing through sovereign bonds.

Wickremesinghe devoted a visit to China at the end of March to inviting new investments, while seeking measures to reduce the burden of debt from that country. Sri Lanka obtained around $8 billion in loans from China during the previous government of President Mahinda Rajapakse.

As soon as Sirisena came to office in January 2015, many projects funded by China, including the $1.4 billion Colombo Port City Project, were halted, pending "reviews." The real reason was that the US demanded a distancing from China. Sirisena was effectively installed via a regime-change operation orchestrated by the US, assisted by India, to end Rajapakse's close economic and political relations with Beijing.

During his visit, Wickremesinghe asked the Chinese authorities to transform some of the loans obtained from that country into equities. He also agreed to allow the Colombo Port City Project to resume, with some changes to the agreement so that the development would be leased for 99 years to the Chinese company involved, rather than be owned by it.

At a press conference last Sunday, Wickremesinghe blamed the global economic crisis for the desperate IMF loan request. He said the IMF was downgrading its global economic growth forecasts every three months. "We are like a small boat in the sea," he said. "The sea will get rough. I cannot prevent that, but I will make sure the boat does not overturn and we will go over head."

Like governments around the world, the Sri Lankan government is seeking to implement far-reaching attacks on living conditions and social rights. This will inevitably set the stage for sharp struggles of workers, peasants, and students.