Sri Lankan government begins implementing IMF austerity demands

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The International Monetary Fund (IMF) announced last week it had reached agreement with the Sri Lankan government for a $1.5 billion bailout loan. Colombo sought the three-year Extended Fund Facility loan to avert the country's precarious balance of payments crisis.

The deal, which must be ratified by the IMF's board in June, is subject to the Sirisena-Wickremesinghe government implementing major social austerity cuts.

Todd Schneider, the IMF's Sri Lankan mission chief, told the media the deal was "subject to the completion of prior actions." In other words, Colombo will only get the loan if it begins implementing the bank's demands before the IMF's June meeting.

Schneider said formal IMF approval would "catalyse an additional $650 million in other multilateral and bilateral loans, bringing total support to about $2.2 billion (over and above existing financing arrangements)." Other multilateral and bilateral loans," he said, were expected from the World Bank and the Asian Development Bank.

On Tuesday, the Fitch Ratings agency warned that although the IMF loan would ease Sri Lanka's immediate balance of payments risks, there would be no change to the country's B+/negative sovereign rating. What was required, the agency said, were "sustained commitments" from the government to "address long-standing weaknesses in external and public finances."

Sri Lankan Finance Minister Ravi Karunanayake and Central Bank Governor Arjun Mahendran led a delegation to Washington last month to discuss the IMF demands. The measures agreed involve increases in the value added tax (VAT); reform of state-owned enterprises, including rapid privatisation of Sri Lankan Airlines; electricity and fuel prices determined by the market; and maintenance of a flexible exchange rate regime.

The IMF's main demand is for the government to drastically slash the budget deficit, which climbed to 7.4 percent of gross domestic product last year. The IMF wants it reduced to 5.4 percent this year and 3.5 percent by 2020.

On Monday, the government increased the VAT from 11 to 15 percent, while announcing exemptions on rice, bread, wheat flour, milk, spices, drugs and services, such as electricity, public transport, education and health care. Higher prices for other goods and services, however, will push up the cost of the exempted goods. The VAT is to be imposed on private education and private health care, which will put further pressure on Sri Lanka's already rundown and overstretched public health and education system.

The government has also introduced a 2 percent Nation Building Tax, which will apply to electricity and telecommunication services and lubricants. Finance Minister Karunanayake told the media the VAT increase and other taxes would boost government revenue by 100 billion rupees ($685.6 million).

A recent survey by the Colombo-based *Sunday Times* noted: "An average low income or middle class family could incur an expenditure of about 10,000 rupees or more [per month], taking into consideration the rising costs of various items besides the increase in phone, water and electricity bills."

Addressing a rally of his right-wing United National Party (UNP) on Sunday, Prime Minister Ranil Wickremesinghe declared that state-owned enterprises would be made "profitable ventures without privatising" them.

These institutions, including the state banks, would be placed under a "Public Wealth Trust and be owned by people," he claimed. Wickremesinghe's "owned by people," is another desperate attempt to try and cover-up the privatisation of state-owned enterprises.

For some time Wickremesinghe has been calling for Singapore's so-called Tamasek Model to be used to manage state-owned enterprises. Tamasek Holding Limited was established by the Singapore government to control state ventures and run them on a commercial basis.

Colombo sought the IMF loan under conditions of a massive debt burden and a growing balance of payments crisis. Foreign debts rose to $44.8 billion in 2015, with foreign loan repayments increasing this year to $4.56 billion and the balance of payments deficit reaching $1.5 billion last year. Foreign reserves have dropped to $6.3 billion, down $1 billon since January.

The main reason for the fall in foreign reserves is intensifying global recessionary trends, which have reduced exports to the US and the EU. Remittances from an estimated one million Sri Lankan migrant workers continue to decline, due to the escalating war situation in the Middle East. These remittances are Sri Lanka's highest foreign exchange earner.

The Central Bank's recently-released annual report revealed that Sri Lanka's economic growth fell from 4.9 percent in 2014 to 4.8 percent last year. Capital Economics analyst Krystal Tan has predicted that it would drop to around 4.5 percent this year. "Growth is likely to slow further over the next couple of years," she said.

Sri Lankan big business was jubilant over the IMF agreement. The official announcement saw the Colombo stock market rise by 1 percent.

President Maithripala Sirisena, Wickremesinghe and other government ministers blame former President Mahinda Rajapakse for the debt crisis. But like Rajapakse, the current government borrowed around $6 billion from currency swaps and sold sovereign bonds last year to pay some of the mounting foreign debts.

In 2009, when Rajapakse was in power, his government borrowed $2.6 billion from the IMF to avert a balance of payment crisis. The IMF demanded harsh attacks, which saw Rajapakse impose a wage freeze on public sector workers and impose taxes on essential food items.

President Sirisena, who came to office in January 2015, following a Washington-backed regime-change operation, exploited the popular opposition against Rajapakse, promising to improve living conditions and restore democratic rights.

Within 16 months of being installed, the Sirisena-Wickremesinghe administration is jumping to IMF demands and launching unprecedented attacks on the living and social conditions of the broad layers of the population. These social assaults will see the eruption of working class struggles and popular opposition against the government.