

# Brexit to intensify Sri Lankan economic crisis

Saman Gunadasa  
6 July 2016

The British vote to exit from the European Union will compound the economic crisis in Sri Lanka and further fuel popular discontent as the government implements the austerity agenda demanded by the International Monetary Fund (IMF).

Britain is the second largest market for Sri Lankan merchandise exports, the third largest source of tourists and accounts for 18 percent of the expatriate remittances sent by Sri Lankans working overseas. A depreciation of the British pound, a shift away from EU employment practices and a possible contraction of British economy could all exacerbate Sri Lanka's mounting balance of payments difficulties.

Moreover, the Brexit decision could also impact on Sri Lankan trade with the EU. Currently 40 percent of the country's exports to EU countries are channelled through Britain.

The Sri Lankan government sent three senior representatives to Britain before the referendum, to actively encourage support for the "Remain" campaign among expatriate Sri Lankans. After the vote to leave the EU, Prime Minister Ranil Wickremesinghe immediately appointed a government committee to assess the impact of Brexit and propose remedial measures.

Wickremesinghe warned: "The impact of Brexit on Sri Lanka would be greater than that stemming from Lanka losing the EU's GSP+ tariff concession." He had been boasting that his government would win back the trade concession, which the EU withdrew as a means of putting pressure on the previous administration of President Mahinda Rajapakse.

Sri Lanka's foreign currency reserves fell to \$US5.6 billion in May, equivalent to only three and half months of imports, down from \$6.06 billion in April and \$7.3 billion six months ago. During the first three months of this year, \$600 million left the country from government securities, the stock exchange and the long-

term government loan market.

The government is desperately seeking to shore up the country's deteriorating balance of payments. Having just received IMF approval for a \$1.5 billion loan on June 3, Wickremesinghe rammed through a decision to obtain a \$3 billion Foreign Currency Term Financing Facility (FTFF)—a syndicate loan through foreign banks—despite the auditor general warning about its unfavourable terms and conditions.

The government is frantically seeking to boost foreign exchange earnings. In April, it imposed a regulation forcing exporters to repatriate their export earnings to Sri Lanka within 90 days. It is also reportedly preparing to amend the Land (Restrictions on Alienation) Act, which bars foreigners from buying land in Sri Lanka. The plan is apparently to offer land to foreigners who bring \$1 million or more into the country and a 10-year visa to those who bring in over \$300,000.

The IMF \$1.5 billion loan, or Extended Fund Facility, is spread out over three years with the first tranche only providing \$168 million. The remainder will be released in six instalments following quarterly progress reports to ensure that the government implements the IMF's demands for slashing the budget deficit, more privatisation and other pro-market measures.

The government expects another \$650 million in additional loans from other multilateral agencies, including the World Bank, Asian Development Bank and bilateral sources such as the Japan International Co-operation Agency (JICA). It has also obtained finance from India via a currency swap program.

In his report to the Ministry of Finance, the auditor general pointed out that the present government has obtained 3,350 billion rupees (\$23 billion) or double the 1,780 billion rupees approved by parliament. At present, 90 percent of government revenue goes to servicing debt. Even though the auditor general is

supposedly independent of the government, both the prime minister and finance minister, provocatively and in violation of the constitution, called him in and demanded an explanation.

At the same time, the government is attempting to exploit the Brexit vote to overcome opposition to an Economic and Technology Cooperative Agreement (ETCA) with India and expedite its signing. The ETCA is opposed by a substantial section of Sri Lankan professionals and corporations, which fear it will expose them to intense competition from India. Development Strategies and International Trade Minister Malik Samarawickrama is due to visit India next week to negotiate the ETCA.

The government is under intense pressure to implement the IMF's austerity measures. On June 20, Moody's ratings agency downgraded the outlook for Sri Lanka's sovereign debt rating from stable to negative, saying it "expects a more moderate reduction in budget deficits than outlined in the projections published as part of the IMF loan." Failure to meet the IMF targets could result in a credit rating downgrade, which would make loans more expensive.

At a recent press conference, Todd Schneider, IMF mission chief for Sri Lanka, said: "Sri Lanka needs to do a fundamental reboot of macroeconomic policy or a policy upgrade." A "fundamental reboot" means nothing other than a massive onslaught on the working masses to make them pay for the economic crisis.

The IMF is insisting that the government slash the fiscal deficit to 3.5 percent of gross domestic product (GDP) by 2020, effectively halving the figure from 6.9 percent last year. Specific conditions include increasing tax revenues, cutting subsidies, privatising state-owned enterprises and establishing a market-driven exchange rate for the rupee. The government will also have to cut its expenditure from the current level of 20 percent of GDP.

Cutbacks to monthly allowances and plans for the privatisation of public enterprises have already triggered resistance by postal workers and port workers in recent weeks. Social services, such as education and health, have been allowed to deteriorate to such an extent that poor rural students have held protests in many parts of the island.

Increases in the Value Added Tax (VAT), up to 15 percent, have resulted in a series of protests by

merchants' associations in cities and towns throughout the country, including Galle, Matara, Badulla, Anuradhapura, Kadawatha, Gampaha and Maharagama.

In a note of caution to the government, the political column of the *Sunday Times* on July 3 stated: "The public discontent can be gauged to some extent by what the civilian intelligence agencies of the state discovered. This week there were 56 protests countrywide by different groups for different reasons but all directed against the government. Therein lies a strong message."



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