Central Bank governor says Sri Lankan economy “hospitalised”

Saman Gunadasa
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Early this month, Sri Lanka’s Central Bank Governor Indrajit Coomaraswamy presented the financial institution’s “Road Map for 2017 and Beyond.”

Last June, the International Monetary Fund (IMF) approved a $US1.5 billion loan to the Sri Lankan government in order to avert a balance of payment crisis. The Central Bank is working closely with the IMF to ensure that the international bank’s loan conditions are fulfilled.

Coomaraswamy said Sri Lanka was the only country in the Asia-Pacific region, apart from Afghanistan, under IMF conditions. “Having an IMF program is the economic equivalent to being in hospital,” he said. “We are not in the ICU [intensive care unit] but clearly in hospital.”

Coomaraswamy’s remarks, which underscored the depth of the county’s economic crisis, were underpinned by his insistence that the government had to keep implementing the IMF’s austerity measures.

The three-year IMF loan was provided under the bank’s Extended Fund Facility, on condition that Colombo imposes economic measures similar to those inflicted on the Greek working class in 2014–2015. These include a 50 percent reduction in the fiscal deficit to 3.5 percent of gross domestic product (GDP) by 2020, lifting the value added tax (VAT), other increases in government revenue and the privatisation of state-owned enterprises.

Last November, the government announced its 2017 budget, raising the VAT by 4 to 15 percent on all goods and services including essential items and cutting the fertiliser subsidy to farmers. It reduced expenditure on primary and secondary education by 50 percent, and by 30 percent for higher education. Health spending was also wound back by almost 7 percent and cuts imposed on public sector employees’ pensions.

In addition, since 2015, the Central Bank has allowed the rupee exchange rate to be decided by market forces, resulting in a devaluation of the currency by more than 10 percent, which has pushed up the prices of all imported goods.

These attacks come on top of IMF-dictated policies introduced by the previous government of President Mahinda Rajapakse in exchange for a $2.6 billion loan in 2009. That loan also sought to avert a balance of payment crisis, aggravated by Colombo’s massive expenditure on the communal war against the separatist Liberation Tigers of Tamil Eelam, and the impact of the 2008–09 global financial crisis.

The Rajapakse government maintained a wage freeze on public sector employees between 2006 and 2015, imposed various taxes on essentials, cut the fertiliser subsidy to farmers and intensified the privatisation of education.

Brutal state attacks were launched against workers and the poor opposing these measures. Police killed one worker when Katunayake free trade zone employees took strike action to defend their pensions. Another person was killed by police when fishermen protested against government cuts to kerosene subsidies.

The key purpose of the Central Bank’s “Road Map” is to insist that the current Sirisena-Wickremesinghe government enforces and extends the IMF’s austerity demands. The IMF measures were the only “medicine” available, Coomaraswamy declared.

To emphasise the point, Coomaraswamy stressed the underlying weakness of the economy. “Being a twin [fiscal and trade] deficit country increases vulnerability in an uncertain and volatile global economic environment,” he said.

According to the Central Bank’s figures, exports declined by 2.6 percent in the first 10 months of 2016, contributing to an increase in the trade deficit by 3.7 percent to $US7.2 billion. The IMF previously predicted a 5 percent annual growth of Sri Lanka's GDP. This has now been downgraded to 4.5 percent.

Coomaraswamy warned that "unsustainable budget deficits boosted excess and untenable demand in the economy," resulting in inflationary pressures and high interest rates. A higher deficit, he said, would further affect the balance of payments and the exchange rate.

The Central Bank governor declared that "consensus must be built among politicians, policy makers and the general public on the need for cohesive reforms." In other words, the government must make the necessary political preparations to force the working class and oppressed masses to submit to the IMF's demands.

Coomaraswamy's remarks express the nervousness in ruling circles about growing social tensions as key sections of the working class, students and farmers have come forward to protest the government's attacks on living standards.

In September-October last year, hundreds of thousands of plantation workers held strikes, demonstrations and pickets demanding higher wages. In December, tens of thousands of postal employees took part in two-day strikes demanding pay increases. University students continue to demonstrate against the privatisation of education.

Coomaraswamy insisted that the austerity measures would "strengthen the medium term stability of the economy." In the context of increasingly volatile global conditions, these claims are a mirage.

In December, the IMF itself warned that the Central Bank "should be ready to tighten policy if global vulnerabilities grow. We emphasise this readiness."

"Readiness" is a codeword for even more brutal social attacks on the living conditions of workers and the poor.

Any economic growth that has occurred has benefited a small wealthy elite and international investors. According to a recent Oxfam report, "the richest 10 percent of the population in countries like Sri Lanka, China, India, Indonesia, Laos and Bangladesh have seen their share of income increase by more than 15 percent," matched by a 15 percent fall in the income share of the bottom 10 percent of the population.

The Central Bank governor's program is for the further enrichment of international financiers and Sri Lanka's wealthiest layers. The Ceylon Chamber of Commerce, the country's peak business organisation, issued a statement after Coomaraswamy's speech, describing it as "an encouraging outlook for the Sri Lankan business community."