# Sri Lankan elite discusses "frightening economic situation"

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The Colombo-based *Sunday Times* published a lengthy article last weekend about a secret meeting of government ministers and President Maithripala Sirisena. According to the newspaper, the high-level gathering discussed "what portends to be a frightening economic situation unfolding in the country."

The meeting was briefed by Central Bank Governor Indrajith Coomaraswamy and his deputy, Nandalal Weerasinghe, and involved ministers from Sirisena's Sri Lanka Freedom Party (SLFP). The SLFP is part of the "unity government" with Prime Minister Ranil Wickremesinghe's United National Party (UNP). Another meeting involving UNP ministers is planned.

The *Sunday Times* reported that the Central Bank officials called for the Sri Lankan government to fully implement the austerity measures required by the International Monetary Fund (IMF). In exchange for a $US1.5 billion loan last August, the IMF demanded Colombo increase taxes, cut subsidies and impose various far-reaching economic reforms, including the privatisation of state-owned corporations. The government is currently preparing more attacks on the living conditions of workers and the poor.

Sri Lanka has been severely hit by the continuing downturn in the global economy and a prolonged drought that has destroyed key crops and driven up the prices of staple foods. Early this year, Central Bank chief Coomaraswamy described the economy as being "hospitalised" in the hands of the IMF.

Central Bank officials presented the ministers' meeting with a detailed overview of domestic and foreign debt and associated debt-servicing problems. Weerasinghe said domestic debt had increased from $US30 billion (4,590 billion rupees) in 2010 to $62 billion in 2016. He said the annual servicing of Treasury bonds required $6.23 billion (945 billion rupees), but market sources had warned "the feasible amount" that could be raised was only $4.74 billion (720 billion rupees).

Recent reports have revealed that the official foreign reserves were only $5.5 billion in January, a fall of half a billion dollars over the previous 12 months. Foreign direct investment (FDI), according to the Board of Investments, halved to $300 million in 2016, from $600 million in 2015.

A recent Reuters news agency article also noted that "Sri Lankan policymakers face a tricky balancing act as the rupee comes under fresh selling pressure, hurt by capital outflows" due to the US Federal Reserve's "more hawkish policy outlook and uncertainty caused by US President Donald Trump's policies on trade, immigration and international relations."

In an indication of increasing capital flight from Sri Lanka, foreign investors sold about $208 million worth of government securities during the four weeks to February 8. Exports have also declined and the rupee has depreciated by around 15 percent since January 2015, sharply pushing up domestic prices.

According to the IMF, which is working directly with Colombo, Sri Lanka's "capital and financial account position has weakened due to foreign exits from government securities, lower FDI inflows, and slow implementation of externally financed public and private projects."

The IMF said "investor sentiment has worsened, reflecting global market volatility and concern over domestic policies." An IMF team visited Sri Lanka last week, with an expanded delegation expected to arrive shortly.

The IMF has proposed that $500 million be raised from the financial markets to compensate for the withdrawal of funds from securities. The finance ministry, however, expressed concerns over this proposal. Last weekend's *Sunday Times* said the ministry told the IMF it "would be imprudent to impose unjustified burdens on the people" and warned that "reluctance on the part of the IMF to show flexibility could destabilise the government."

Irrespective of its concern, the government is already attempting to secure loans from the international markets. Last week, the cabinet approved efforts to raise $1.5 billion over the next few months to service the debt this year.

Finance Minister Ravi Karunanayake has tried to cover up the brewing economic problems, claiming that the country's fiscal performance was on track in 2016. "Fiscal performance on track," means that the government, in line with IMF demands, will slash the fiscal deficit to 5.4 percent of the gross domestic product (GDP) by additional tax increases and social spending cuts.

The Fitch credit ratings agency, however, has warned that "foreign-currency debt, which is close to 40 percent of GDP, weakens Sri Lanka's fiscal finances, as it increases the risk of higher debt in local currency terms if the rupee depreciates sharply."

Inflation is on the rise, with workers and the poor hit by higher commodity prices, especially for staple foods, such as rice, coconut and vegetables. Core annual inflation hit 7 percent in January, up from 5.8 percent in December, under the impact of tax increases imposed in the 2017 budget.

A severe drought has hit wide areas of the country and caused food shortages. The government last week imposed rice price controls in a desperate attempt to prevent a price surge. It has also been forced to import rice from India, Vietnam and Indonesia. Farmers have accused big rice millers, many of them closely connected to the government, of hoarding rice and driving up prices.

Fearing the political consequences of this socially explosive situation, the *Sunday Times* declared: "In this ghastly debt scenario, the whole machinery of government, including the Ministry of Finance, the Central Bank, the President's and the Prime Minister's Offices, seem blissfully unprepared to meet the challenge of the enormous magnitude of the debt crisis …."

The Sirisena-Wickremesinghe government, in fact, is considering the imposition of a state of emergency and the deployment of security forces to curb any unrest among the masses. Prime Minister Wickremesinghe last month submitted a proposal to the cabinet along these lines. The pretext for this sort of draconian response is the drought, which has struck 16 of Sri Lanka's 25 districts.

Indicating its support for such measures, a *Sunday Times* editorial declared: "Even if a State of Emergency was premature, a state of alert and urgency is the need of the hour."