IMF head to visit Sri Lanka to demand more austerity measures

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International Monetary Fund managing director Christine Lagarde will arrive in Sri Lanka on Sunday to insist on the implementation of the remaining IMF austerity measures. During this first-ever visit by an IMF head, Lagarde will use the economic and financial problems faced by the Colombo government to dictate terms.

In order to “avert a balance of payment crisis,” the IMF approved a $US1.5 billion loan last year, to be paid in six installments, subject to the government meeting the IMF’s targets. The government pledged to reduce the fiscal deficit to 3.5 percent of gross domestic product by 2020, which is half the deficit for 2015. The target is to be achieved by restructuring state-owned enterprises, including through their privatisation, and by slashing subsidies and increasing taxes.

During 2016, IMF released two installments worth $325.2 million. The government increased the value added tax (VAT) from 11 percent to 15 percent, sending the price of essentials skyrocketing, and cut expenditure for education and health by about 46 and 8 percent respectively.

Lagarde is arriving after the IMF said that the government had “missed key benchmarks” which were to be implemented by December, the *Economy Next* reported. These “benchmarks” included restructuring six of the largest state-owned ventures—the Ceylon Petroleum Corporation (CPC), Ceylon Electricity Board (CEB), Sri Lankan Airlines, National Water Supply and Drainage Board (NWSDB), Airport and Aviation Services, and Sri Lanka Ports Authority. The finance ministry was also required to introduce automatic fuel and electricity pricing mechanisms for the CPC and CEB in order to push retail prices above cost-recovery levels and finance their debts.

To prepare for Lagarde’s intervention, an IMF team led by senior staffer Todd Schneider is currently conducting discussions with officials in Colombo. Finance Ministry Secretary R.H.S. Samaratunga told the *Daily News* the team held talks with Finance Minister Ravi Karunanayake and Treasury officials last Friday about “how to improve the performances of state-owned institutions.” Samaratunga said: “The requirement is to get them at least to the break-even level of performance.”

Among other items discussed was the sale of “non-strategic” assets such as the Colombo Hilton Hotel, Lanka Hospitals, the Hyatt Hotel and Sri Lankan Airlines. The IMF has estimated their sale could earn the government $1.5 billion.

Automatic pricing formulas and “break-even levels of performance” mean massive price increases for electricity, fuel and water, and the slashing of jobs. For instance, the government has prepared a plan to increase water charges by 300 percent.

The pro-US government in Colombo is not averse to implementing these measures. In a bid to overcome public opposition, President Maithripala Sirisena organised a seminar for some government ministers recently, in which Central Bank officials reportedly presented detailed overviews of the domestic and foreign debt and associated debt-servicing problems.

The government’s main concern is that the IMF’s measures will immediately trigger struggles of workers and the poor. The government is already facing protests by workers, farmers and students against reduced living conditions and the privatisation of education.

The government also fears that the opposition, led by former President Mahinda Rajapakse, will exploit the popular anger. Rajapakse formed an organisation last week under the fraudulent name of the National Assets Protection Center, supposedly to oppose privatisations.

However, Rajapakse's government, which was in power from 2006 to 2014, was widely discredited for freezing wages, eliminating jobs, cutting living conditions and tearing up democratic rights in order to impose the burden of its war against the separatist Liberation Tigers of Tamil Eelam (LTTE). After the LTTE's defeat, and the international crisis triggered by the 2008–2009 financial turmoil, Rajapakse was forced to seek an IMF loan, which also required austerity measures.

Notwithstanding the political crisis in Colombo, Lagarde will demand a pound of flesh. The IMF, together with the European Union and European Central Bank, imposed similar measures in Greece, causing social devastation. Last month, Lagarde insisted on even more draconian measures in Greece, saying the IMF was a "ruthless truth teller."

This is nothing but the dictatorship of finance capital. The "truth" is that, as in Greece, the IMF is asking the government to make the working class and poor pay for the economic breakdown of capitalism.

The Syriza government in Greece came to office in 2015, with the help of pseudo-left groups, by promising to oppose IMF and EU austerity measures. It has since enforced the measures and suppressed the resistance of workers.

Sri Lanka is being battered by the global capitalist slump. The country's trade deficit is likely to have reached a new peak of more than $9 billion last year, exceeding the deficits of $8.4 billion in 2015 and $8.3 billion in 2014. In 2015, foreign direct investment totalled only $600 million and further deteriorated to $300 million in 2016. Recent reports revealed that the official foreign reserves dropped to $5.5 billion in January, a fall of half a billion dollars over the previous 12 months.

There has been an increasing flight of capital in recent weeks, in response to the US Federal Reserve hinting it would increase interest rates and President Donald Trump's threats of trade war. US firm Franklin Templeton, one of the world's largest investment management firms, has been withdrawing funds invested in Sri Lankan government securities. The US has been the main source of investment in such securities.

Among the IMF's concerns is that the Sri Lankan government's problems could lead to a loan default. The government is seeking to raise $3.6 billion for the settlement of loans and interest payments this year, almost double last year's requirement of $1.82 billion.

Lagarde's intervention will set the stage for explosive social and class struggles. Last week, Prime Minister Wickremesinghe told a public meeting the government will not "tolerate strikes and protests or any obstacle to economic development."