Sri Lankan government moves to privatise major state corporations

Saman Gunadasa
27 March 2017

The Sri Lankan government is rapidly implementing demands made by an International Monetary Fund (IMF) team in Colombo early this month. During the visit the Sirisena-Wickremesinghe government said it would sell the state-owned Hyatt, Grand Oriental, Waters Edge and Hilton hotels and Lanka Hospitals, and listed them on the stock exchange in an attempt to raise $US1 billion.

On March 15, the government declared that key state-owned enterprises—the Ceylon Electricity Board (CEB), Ceylon Petroleum Corporation (CPC), National Water Supply and Drainage Board (NWSDB), Airport and Aviation Services (AASL) and Sri Lanka Ports Authority (PA)—would operate on a commercial basis. The decision, a first step toward privatisation, will see job cuts and major attacks on working conditions. Workers at the state-owned enterprises have consistently opposed privatisation.

Last week, Central Bank of Sri Lanka governor Indrajith Coomaraswamy announced that monetary policy was being tightened with 25-basis point increases in lending and deposit rates, climbing to 8.75 percent and 7.25 percent respectively. The decision is in line with IMF recommendations.

The IMF team also called on Colombo to speed up "economic reforms" in order to reduce the fiscal deficit and avert a debt repayment crisis. The government has publicly acknowledged that it needs $US3.4 billion this year to pay foreign debt instalments and interest. The IMF is notorious for its privatisation demands, recently imposing its dictates on governments in Greece, Romania, Egypt, India, Pakistan and Bangladesh.

An IMF team press release on March 7 said "finalising and publishing Statements of Corporate Intents for large SOEs (state owned enterprises)" was the "first necessary step for enhancing transparency and accountability in the reform program."

A week later, on March 15, CEB, CPC, NWSDB, AASL managers and the government ministries under which they operate signed a "Statement of Corporate Intent" with the finance ministry. This involves "improving productivity," "enhancing the efficiency of employees," "institutional structural changes" and "improving operational efficiency." In other words, increasing workloads, slashing jobs and limiting all wage demands.

While these state-owned enterprises currently employ more than 50,000 workers, management has increasingly employed low-paid contract workers to cut costs. Management also plans to "improve operational efficiency" by raising the cost of services, which will further impact on workers and the poor.

Finance Minister Ravi Karunanayake told a press conference that "the loss-making public companies accumulate a total loss of 167 billion rupees a year." The government expected these companies to increase "operational and financial efficiency through improved corporate practices" and become "profit-making ventures."

Karunanayake declared the government would fulfil all IMF targets by June, apart from those for the country's net international reserves, which are declining due to a flight of funds triggered by US interest rate increases.

There is some uncertainty about whether the $120 million third instalment of the already-approved $1.5 billion IMF loan will be disbursed by its scheduled date of April 20. While this amount is small compared to Sri Lanka's commitments, the cash-strapped government hopes to use it as a guarantee to woo other lenders and foreign investors. Colombo has pledged to reduce the budget deficit to 3.5 percent of the gross domestic product (GDP) by 2020.

The IMF urged last week's interest rate increases. Its March 7 press release stated: "The mission encourages the Central Bank of Sri Lanka to remain vigilant in monitoring inflation pressures and stand ready to tighten monetary policy if inflation or credit growth does not abate." It urged the Central Bank to take stronger actions toward "rebuilding international reserves."

While the IMF claims its measures will improve the economy, the higher credit rates will have the opposite effect. The Reuters news agency commented last week: "Policymakers face a tricky balancing act as the rupee has come under renewed pressure, hurt by capital outflows, but a rate hike is likely to further slow down an already fragile economy."

Late last week, the Central Bank government further reduced its economic growth predictions. It previously calculated that growth in 2017 would be between 5.5 and 6 percent of GDP. This has been revised down to 5-5.5 percent. Last year's growth was predicted to be 4.8 percent but fell to 4.4 percent.

Economic growth could further decline in response to higher credit rates. Year-on-year credit growth was 22 percent and 21 percent last December and January, respectively. Credit growth is expected to decline to 15 percent by the end of this year due to the higher interest rates.

The global economic downturn is seriously impacting on Sri Lankan exports. In 2015, annual exports declined by 5.6 percent and in the first 11 months of 2016 exports dropped by another 2.8 percent. Adding to this crisis, foreign investors in Sri Lankan treasury bonds have withdrawn $420 million (63 billion rupees) so far this year, after withdrawing $324.3 million in 2016.