Sri Lanka: IMF orders government to speed up austerity measures

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The International Monetary Fund (IMF) earlier this month stalled a $162 million payment—the third tranche of its $US1.5 billion loan to Sri Lanka—until the government rapidly proceeds with the bank's austerity demands. The loan decision is expected to worsen the escalating debt crisis facing the South Asian island nation.

An IMF press release issued from Washington on May 3 declared that the bank had reached a "staff-level agreement with Sri Lankan authorities" and that release of the third tranche would be "subject to the completion of a prior action by the authorities and the approval of the IMF Executive Board." The press release said that the IMF executive board would review the agreement in June.

"Completion of prior actions" includes the government presenting to parliament next month its postponed Inland Revenue Act and expediting other economic reforms, in particular the privatisation and restructuring of state-owned enterprises. The Inland Revenue Act, which will expand the Sri Lankan government's tax income, was delayed over fears of widespread opposition and political protests.

Early this week, on May 15, Sri Lankan Finance Minister Ravi Karunanayake announced that the government had gazetted the new tax structure and that it would be implemented following parliamentary approval.

Last month, IMF officials bluntly declared that the Sri Lankan government's "progress on implementing structural benchmarks was somewhat uneven with some of the reforms lagging behind intended timelines."

Karunanayake tried to downplay the delayed IMF tranche. "The money we get from them is not significant," he said, "but the IMF (program) helps us demonstrate that we have managed the economy well."

The Sri Lankan government, in fact, badly needs the blessing of the IMF to even obtain commercial loans. Without IMF support, Colombo has to pay high interest rates to borrow on the international money market.

Karunanayake went on to say that the government plans to raise $2.5 billion through sovereign bonds and syndicate loans. These, and more commercial loans, will aggravate already high debt repayments.

An April 30 column in the *Sunday Times* by Nimal Sandaratne, an economist, highlighted the gravity of Sri Lanka's debt crisis.

Quoting finance ministry data, Sandaratne reported that debt repayments will increase from $US2.4 billion in 2017 to $2.5 billion in 2018 and $4 billion in 2019. Meeting the repayments for this year and next, he said, would be "immensely difficult," but the $4 billion in 2019 was "unthinkable at present."

In line with IMF demands, Sandaratne called for "appropriate monetary and fiscal policies and economic reforms" to ensure "debt sustainability and avoid an impending crisis in the external finances… Bold decisions that are politically unpalatable must be taken to resolve the debt crisis." In other words, Colombo must intensify the social assault on the working class and the poor.

The AFP reported on April 27 that the tax reforms demanded by the IMF of Sri Lanka are in line with tax laws introduced in Ghana a couple of years ago. These measures imposed heavy financial burdens on small businesses, including self-employed people, traders and professionals, as well as workers and other low income earners.

The Sri Lankan government is currently in the process of privatising state-owned-enterprises, covering fuel, electricity, water and other vital services. These plans are being resisted by workers at these enterprises as well as in the port and airline industries. The AFP claims that protests by port and airline workers have discouraged investors.

Sri Lanka's ballooning debt crisis has been aggravated by an ongoing fall in exports. Export earnings dropped by 2.2 percent between 2015 and 2016, to $10.3 billion. The trade deficit rose from $8.4 billion in 2015 to $9.1 billion the following year.

The growing trade deficit has meant that the government is more and more dependent on income from workers' remittances, mainly from the war-torn Middle East.

President Maithripala Sirisena has attempted to brush aside the financial crisis, telling media chiefs on April 19 that Sri Lanka was "heading towards very positive and strong economic stability." The country's foreign reserves, he declared, had already exceeded $5 billion and "more economic performances" were expected. The $5 billion in foreign reserves, however, is only sufficient to cover three months' imports. This reserve, moreover, mainly consists of borrowed money.

Karunanayake went a step further claiming that foreign reserves would reach $10 billion before the end of 2017. But this inflow consists of further borrowings—$1 billion through a syndicated loan, which would be finalised by May; $1.5 billion in bond sales—as well as Chinese investment in the Hambantota Port.

These desperate claims are to cover up the fact that Sri Lanka's ruling elite are planning to dramatically escalate the attacks on the jobs and social conditions of the working class, the rural masses and the poor. This is why President Sirisena has called upon retired Field Marshal Sarath Fonseka to head the armed forces over the next two years in order to "discipline the country." Fonseka is well-known for his ruthless prosecution of Colombo's almost 30-year communal war against the separatist Liberation Tigers of Tamil Eelam.