Sri Lanka records lowest economic growth in 16 years

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Sri Lanka's economic growth rate fell to 3.1 percent last year, from 4.4 percent in 2016, the worst result in 16 years. This slide points to serious economic problems facing the government, amid a worsening debt burden.

The Statistics Department said the services sector, which contributes close to 56 percent of output, grew last year only by 3.2 percent, a significant drop from the previous year's 4.7 percent result.

The agricultural sector, which accounts for close to 8 percent of the economy, declined by 0.8 percent, mainly due to weather calamities. The industrial sector, which makes up around 27 percent of the economy, grew by only 3.9 percent, a marked fall from the previous year's 5.8 percent.

The growth statistics appeared on the department's web site on March 15 but were withdrawn the next day. The department's head said it received the data "at the last minute" and wanted "full data calculations." Whatever the reason, the withdrawal embarrassed the crisis-ridden government.

The Sri Lankan stock exchange last week reported its lowest share prices in more than eight weeks. "The market is moving sideways as investors are on the sidelines due to concerns over lower growth," First Capital Holdings PLC senior research analyst Atchuthan Srirangan said.

In January, Central Bank Governor Indrajit Coomaraswamy predicted a lower economic growth rate for 2017. Together with floods and droughts, he blamed "the tight monetary stance of the Central Bank as well as the relatively tight fiscal policy stance of the government," which "partly affected public and private investment spending."

These Central Bank and government policies are the direct result of the International Monetary Fund's (IMF) austerity program. In return for bailout loans, the IMF insisted that the fiscal deficit be cut to 3.5 percent of the gross domestic product (GDP) by 2020, half the 2014 deficit.

The "Troika"—the European Union (EU), European Central Bank (ECB) and IMF—prescribed similar policies to debt-ridden Greece. The IMF's so-called economic recovery prescription has nothing to do with improving the conditions of workers and the poor. It is seeking a recovery of capitalism, but the impact of the 2008 global financial collapse is continuing.

The IMF's concern is to impose the burden on working people by cutting subsidies, raising taxes and commercialising and privatising state-owned enterprises. The latest IMF staff report on Sri Lanka highlighted its vulnerability" given the still sizable public debt and low external buffers." For "sustained growth, the reform momentum needs to continue," it insisted.

Accordingly, major attacks on workers' jobs and living and social conditions are underway.

From April 1, the government will open tax files for every citizen above 18 years. Direct taxes are to be imposed on almost all sections of society, including small businesses, self-employed persons, professionals, workers and pensioners.

The commercialisation of state-owned banks, the Electricity Board, Petroleum Corporation, Water Board and Ports is on the agenda. Sri Lanka Survey Department employees have been on strike for more than a week, opposing its planned privatisation and transfer of its functions to a US-based company.

This month the government is to implement a so-called price formula to increase electricity and fuel prices to international levels. The Indian Oil Company raised the price of petrol by nearly 8 percent and diesel by 5 percent last week, blaming the government for its "failure" to introduce the "price formula." The state-owned petroleum company will soon match the increases.

The government is allowing other consumer goods prices to rise on the pretext of "increased costs." On March 26, the government permitted milk powder prices to increase by 80 rupees a kilogram, a 10 percent hike.

The government is taking these measures as its debt repayment problems worsen. The debt service payment for this year is $US2.9 billion, rising to $4.2 billion in 2019 and continuing at $3.6 billion for each year from 2020 to 2022, according to the Central Bank.

There is much media debate about how the government will save money this year to pay next year's massive $4.2 billion bill. A *Sunday Times* economics columnist declared on March 25: "It is vital for the country's balance of payments to achieve a higher surplus than last year's $2 billion to reduce foreign borrowing for debt repayment."

The article noted that international tensions and the slowdown in the Middle East were reducing remittances from Sri Lankans working overseas, which covered around 70 percent of the trade deficit. It argued that one alternative was to limit imports, which will only prompt further price rises.

At the same time, the government is seeking more borrowing, increasing the debt burden. On March 23, the parliament passed the government's "active liability management bill" to allow it to take out more loans overseas to "improve public debt management." However, this means the government could exceed the borrowing limit approved by the budget bill for specific purposes like debt servicing.

President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe came to power in 2015 promising to improve living and social conditions. They exploited the anger among working people to oust former President Mahinda Rajapakse. However, the conditions of working people have further deteriorated.

A Colombo-based *DailyFT columnist*, W. A. Wijewardena, noted the erosion of living standards in an article on March 26. Per capita income (PCI) slightly increased to $4,065 in 2017 from $3,842 in 2015. However, when adjusted for price increases, the PCI declined markedly from $3,032 in 2015 to $2,780 in 2017. The latter data, which revealed the real living conditions and well-being of the people, was "disastrous," Wijewarda wrote.

The declining conditions have intensified public anger. As a result, the ruling coalition of Sirisena and Wickremesinghe suffered heavy defeats in the local government elections on February 10. In the ruling class there are ongoing concerns over the government's fragility as Sirisena and Wickremesinghe blame each other for the election debacle. There are also fears that the government will pursue "populist measures" that undercut the austerity program.

However, the government's ruthless attitude toward the working class has been shown by its refusal to meet the demands of nearly 16,000 university non-academic workers for a wage increase, and a medical and pension scheme. The government has bluntly told the workers it has "no money" to grant their demands.