International Monetary Fund demands Sri Lankan government cut fuel subsidies

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The International Monetary Fund (IMF) has said it will halt the scheduled fourth instalment of a $US1.5 billion loan to Sri Lanka unless the government introduces an "automatic fuel pricing mechanism."

The government previously promised to remove fuel subsidies in March and impose the higher prices. The measure would drive up the cost of essential items for millions of people.

On April 20, IMF mission chief for Sri Lanka Manuela Goretti said the new pricing mechanism was consistent with the IMF's Extended Fund Facility-supported program, but that it would consider the government's request for the mechanism to be introduced in June.

The pricing mechanism is one of several austerity measures the Sirisena-Wickremesinghe government has pledged to impose. These include new taxes on all sectors of the population, the elimination of Electricity Board subsidies by September and the privatisation or commercialisation of various state-owned enterprises, such as the Water Board, state banks, ports and the Sri Lankan Air Lines. On April 1, the finance ministry enacted direct taxes on small businesses, self-employed workers, professionals, workers and pensioners.

While the Ceylon Petroleum Corporation lifted gas prices by 17 percent last week, it avoided increasing oil prices, fearing widespread popular opposition.

Petroleum Resources Development Minister Arjuna Ranatunga reportedly told cabinet on April 25 the ministry had no immediate plans to increase prices. A *Sunday Times* article last weekend commented that although a "cost reflective fuel pricing formula" is needed to "ensure economic stability [this] is not politically feasible for a government attempting to gain political popularity in its final stretch towards an election."

Sri Lanka's ruling coalition already faces mass discontent over the drastic deterioration in living and social conditions over the past few years. In the last 12 months, it has been hit by working-class strike action, protests by farmers opposing cuts to subsidies and demonstrations by students over the privatisation of education. That is why it is trying to delay the fuel subsidy cuts.

But if the government fails to increase fuel prices by June as promised, the IMF will withhold the loan instalment and spark a balance of payments crisis.

According to the Central Bank, debt service payments will be $2.9 billion this year, $4.2 billion in 2019 and $3.6 billion each year from 2020 to 2022. IMF approval of the fourth loan portion is necessary in order to raise other loans with "fair" interest rates.

Early this month, Idah Pswarayi-Ridihough, the World Bank country director for Sri Lanka, publicly denounced government subsidies to state-owned corporations, declaring that "unproductive government-run institutions [are] devouring billions of rupees." She claimed that 400 state-owned enterprises suffered a loss of 460 billion rupees in 2016.

In other words, the World Bank wants "productivity" driven up via the elimination of subsidies, higher prices and the imposition of more exploitative conditions at all state-owned workplaces.

The IMF-dictated austerity measures are aimed at slashing the fiscal deficit to 3.5 percent of gross domestic product by 2020.

Last year Sri Lanka's economic growth rate fell to 3.1 percent, the worst result in 16 years, and down from 4.4 percent in 2016.

The government also confronts the ongoing depreciation of the rupee, which last week plunged to 159 rupees for a US dollar. Since 2015, the local currency has declined by almost 20 percent, with recent falls partly a result of a deepening crisis in the ruling coalition.

Early last month, Central Bank governor Indrajit Coomaraswamy noted the continuing political crisis. “[T]he important thing now is to have some kind of stable outcome where government will work effectively,” he said.

The principal factor in the rupee devaluation is the IMF’s demand that the currency be subject to market forces and that the Central Bank’s foreign currency reserves not be used to prop it up. The devaluation places upward pressure on the price of imports, further driving down the living conditions of working people.

Increases in US import taxes by the Trump administration and escalating global trade conflicts are impacting on Sri Lanka’s exports to America, Britain and Western Europe, the country’s main markets.

The Joint Opposition (JO) alliance of parliamentarians, headed by former President Mahinda Rajapakse, is attempting to exploit the growing discontent of the masses by shedding crocodile tears over the government’s austerity measures.

JO spokesman and former Rajapakse government minister Bandula Gunawardena postured in front of the media on April 22, declaring that the parliamentary alliance “strongly opposed” the fuel pricing formula because “the people are struggling to make ends meet.”

When challenged by journalists, who pointed out that Rajapakse’s government introduced similar measures, Gunawardena was forced to declare that “such a formula was a must” and “Sri Lanka couldn’t do without a pricing formula for major imports such as fuel.”