# Sri Lankan political coup: Rajapakse makes bogus promises to ease social crisis

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Prime Minister Mahinda Rajapakse, installed in a political coup on October 26, has also appropriated the post of finance and economic affairs minister. Last week, in a bid to deflect the opposition of working people, he announced cosmetic measures to ease the economic and social crisis facing workers, peasants and the poor.

Rajapakse is trying to paint himself as "people-friendly" in contrast to Ranil Wickremesinghe, who was unconstitutionally sacked as prime minister by President Maithripala Sirisena. In fact, whichever faction of the Sri Lankan ruling class finally consolidates power in the ongoing bitter political struggle, it will certainly deliver further blows to the living conditions of working people.

On Monday, Mangala Samaraweera, former finance minister, responded to Rajapakse's announcement by warning that the measures would "put the economy in peril" and expressed concern that they would undermine the austerity program dictated by the International Monetary Fund (IMF).

Rajapakse's announcements included small reductions in the prices of petrol, diesel, dhal, chickpeas, wheat grain and sugar. Other measures reduced the telecom levy on phone charges from 25 to 15 percent; increased the value added tax (VAT) threshold from 12 million to 24 million rupees; waived interest on farmers' loans below 50 million rupees for the past three years; and reduced fertiliser prices for crops other than paddy rice by a third.

At the same time, however, Rajapakse claimed that his government was "confident" of achieving the target for 2018 of limiting the budget deficit to around 4.9 percent of gross domestic product (GDP), so as to support "further fiscal consolidation to provide economic stability." This figure had been announced previously by the Central Bank and approved by the IMF.

Rajapakse's remarks are a signal that he will abide by the IMF's demands, even if it means ditching his latest price and tax reductions. When Wickremesinghe's government obtained a $US1.5 billion bailout in June 2016, the IMF insisted that the budget deficit be reduced to 3.5 percent of GDP by 2020.

A senior finance ministry official yesterday told the media that several of Rajapakse's measures could not be implemented immediately, including the reduction of VAT and telephone charges and a proposal to simplify the nation building tax. He said such reductions could be made only next January because cabinet approval was necessary, followed by parliamentary approval of amended regulations.

The Wickremesinghe-Sirisena government ruthlessly attacked living and social conditions as demanded by the IMF. However, Rajapakse's attempt to pose as people-friendly is utterly false. Between 2005 and January 2015, when he was ousted, Rajapakse's policies were devastating for working people.

The Rajapakse government resumed the communal war against the separatist Liberation Tigers of Tamil Eelam in mid-2006 and exploited it to divide and suppress the working class. The burden of the huge loans to finance the war was imposed on workers and the poor through increased taxes and the freezing of wages.

Under the impact of the 2008 global financial crisis, Rajapakse's government deepened its attacks on the working class. In June 2009, it was forced to take a bailout loan and implement the IMF's austerity demands. In 2011, Katunayake Free Trade Zone workers who protested against changes to the pension fund were violently suppressed by police, who killed one worker. In 2012, police attacked fishermen protesting against increased fuel prices and killed one fisherman.

The economy is now in acute crisis, leaving the Sirisena-Rajapakse government with no room to manoeuvre.

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Increased US interest rates have triggered an outflow of more than 85 billion rupees ($US494 million) from the Colombo stock market up to the end of October. The current political impasse since the ousting of Wickremesinghe has resulted in the outflow of another 11 billion rupees.

As a result, there is a balance of payments crunch looming. Over the first seven months of the year, the trade deficit rose to $6.4 billion. Huge debts mean that the servicing bill for 2019 has risen to more than $4 billion. At the same time, the Sri Lankan rupee has depreciated by about 14 percent compared to the US dollar this year, fuelling skyrocketing prices for imports.

Commenting on the country's political standoff, the Fitch rating agency warned last week that "policy decisions that derail the IMF program or lead to a loss of investor confidence could increase external financing challenges." Referring to the country's worsening debt situation, Fitch effectively signalled a possible downgrading of the country's rating.

IMF spokesperson Gerry Rice told the media this week that the IMF had taken note "of recent developments." While he said it was "premature" to assess the implications for the IMF's program for the country, some economists have expressed doubts that the IMF will deliver the final $250 million installment of its bailout loan.

The US and its allies have already expressed concern about Wickremesinghe's removal as prime minister and backed his call for the immediate reconvening of parliament as a means of demonstrating his majority. Washington is opposed to a government led by Rajapakse as it considers him pro-China. The US could well try to push the IMF to withhold its final installment as a means of putting pressure to reinstate Wickremesinghe.