

Sri Lankan Central Bank governor calls for extended IMF program

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Presenting his annual economic “road map” for 2019, Central Bank governor Indrajit Coomaraswamy called on the Sri Lankan government last week to request the International Monetary Fund (IMF) resume its loan bailout program—and extend its terms—to avert the country’s growing financial problems. Coomaraswamy’s “remedy” for the island’s economic crisis is to impose another round of austerity measures on working people.

The IMF last November suspended the final \$500 million instalment of its \$1.5 billion loan to Sri Lanka after bitter infighting within Colombo’s political elite. President Maithripala Sirisena sacked pro-US Prime Minister Ranil Wickremesinghe, replaced him with former President Mahinda Rajapakse, and then dissolved parliament. Sirisena, however, was compelled to reinstate Wickremesinghe as prime minister in mid-December, amid considerable international pressure, particularly by the US, after the Sri Lankan Supreme Court overruled the president’s political coup.

“There are provisions to extend the [IMF] program by another year” which are “worth considering,” Coomaraswamy said. Senior deputy bank governor, Nandalal Weerasinghe, told the media that the bank would investigate how much more financial aid was needed and the sort of conditions that would be attached to an extension of IMF loan repayments.

The IMF’s \$1.5 billion bailout loan, awarded in 2016, included a reduction of the budget deficit to 3.5 percent of the GDP in 2020. This was to be achieved by increasing taxes, slashing the country’s meagre welfare programs and “restructuring the economy”—i.e., further privatisation of state-owned enterprises.

Pointing to Sri Lanka’s precarious financial situation, Central Bank governor Coomaraswamy said that

foreign reserves had fallen to \$6.94 billion last year amid a \$1 billion outflow from rupee-denominated government securities. Of that outflow, 42 percent occurred since October, when the bitter factional fighting erupted in Colombo. The value of the local stock market fell by 23 billion rupees during the year, with a 13 billion rupee decline since October.

The capital market outflow was the main factor in a 19 percent depreciation of the Sri Lankan rupee against the US dollar last year that forced up the cost of imported essentials.

Coomaraswamy said that the Central Bank would respond to the capital outflow by cutting the volume of rupee bonds held by foreigners. “In view of the increased volatility in global financial markets we intend to reduce the threshold for foreign investment in rupee-denominated bonds from 10 percent to 5.” US financiers are the main investors in the Colombo security market.

The Central Bank governor also noted that the government is required to make a \$1 billion repayment in mid-January with total repayments of \$2.9 billion due by the end of the year. He said that the Central Bank is currently attempting to secure additional loans from all available sources, including Panda and Samurai bonds, and swaps with the Reserve Bank of India and the People’s Bank of China.

While Sri Lankan exports are in decline, import prices are increasing. As a result the trade deficit had widened to \$8 billion by September. Sri Lanka, Coomaraswamy continued, is a “twin deficit” country with trade and budget deficits, and admitted that the country has been battered by the global crisis. “The economy faced heightening challenges in 2018, emanating mainly from global economic, financial and geo-political developments.”

Sri Lanka's economic growth rate fell to an annualized 2.9 percent in the third quarter of 2018, down from the 3.6 in the second quarter. The Central Bank estimates that the growth rate in 2018 will be 3 percent, a decline from the 3.2 percent recorded in 2017.

The three major international rating agencies—Moody's, Fitch and S&P—responded to the IMF's suspension of its final loan instalment, by immediately downgrading Sri Lanka's credit rating.

Referring to the new credit rating, Coomaraswamy said: "Now that we have been downgraded, we have had to renegotiate with various financing sources... If we have an undisciplined budget and poor policies, we will be downgraded again. We will lose access to capital markets."

The Central Bank governor warned the new Wickremesinghe government not to make any political concessions to popular sentiment in Sri Lanka's forthcoming elections. "I get very disturbed because everybody, even fairly well-informed people, say the election is coming so they will have to loosen policy...We cannot keep making the same mistakes." The government has to be "careful to ensure there is no fiscal slippage, despite the elections."

State Minister of Finance Eran Wickramaratne told the *Dailyft* that Colombo has decided to begin discussions with several organisations, including the IMF and the Millennium Challenge Corporation (MCC) US aid program. The newspaper reported that further IMF intervention was "crucial to encouraging the government to stick to its fiscal consolidation policies."

Political uncertainty about the government, however, continues. Wickremesinghe's United National Party does not have an outright majority in the parliament and President Sirisena will continue to use his powers to undermine the government.

Finance Minister Mangala Samaraweera, who was supposed to present his 2019 budget last year, is now scheduled to present it in March. He has told the media that the budget will be a "surprising one," indicating that there may be some concessions because provincial council and presidential elections are due to be held this year.

In all likelihood, however, the IMF will insist on another round of harsh austerity measures that will set

the stage for the eruption of mass struggles against the government and the Sri Lankan capitalist state by workers, students and the rural poor.



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