# IMF to resume Sri Lankan loan program discussions

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The International Monetary Fund (IMF) will send a team to Colombo in mid-February to discuss resuming a postponed loan program to Sri Lanka, whose government faces a ballooning foreign debt and severe debt-servicing problems.

IMF managing director Christine Lagarde made the statement on January 15, following discussions in the US with a Sri Lankan delegation headed by Finance Minister Mangala Samaraweera. The deputation included Central Bank governor Indrajit Coomaraswamy, Finance Ministry Secretary RHS Samaratunga and Economic Reforms Minister Harsha de Silva.

The IMF stalled a scheduled discussion last year and withheld the release of $US500 million—the last two installments of a $1.5 billion loan approved in 2016—following an attempted political coup by President Maithripala Sirisena. The bank said it postponed the payments in response to “political uncertainty” in Sri Lanka.

On October 26, Sirisena dismissed Ranil Wickremesinghe as prime minister and replaced him with former President Mahinda Rajapakse. When Rajapakse was unable to win majority parliamentary support, Sirisena dissolved parliament.

The president’s coup failed after intense pressure from Washington for the reinstatement of Wickremesinghe and the Sri Lankan Supreme Court ruled that Sirisena’s actions were unconstitutional.

Washington, which has intensified its military, geo-strategic and trade measures against China, was hostile to any return to power by Rajapakse whose previous administration developed close relations with Beijing.

Postponement of the IMF installments led to Sri Lanka being downgraded by major international rating agencies—Moody’s, Fitch and Standard and Poor’s—and weakened its ability to borrow on the money markets. After Wickremesinghe was reinstated, the government appealed to the IMF to resume its funding facility.

Lagarde told the media on January 15 that Sri Lankan authorities had assured the IMF of Colombo’s “continued commitment” to the bank’s “economic reform agenda” and the necessity for “a strong policy mix.” This means a ruthless intensification of the bank’s austerity program.

The IMF’s “reforms” include slashing subsidies to small farmers and the poor, eliminating jobs through the privatisation and commercialisation of state-owned enterprises, and expanding the tax net to include all working people. Increased tax concessions will be handed to big business and the value of the country’s currency more directly determined by market forces.

Before the Sri Lankan delegation’s meeting with the IMF chief, Wickremesinghe outlined the country’s debt problems in a special statement to parliament. He spoke of paying $5.9 billion in debt servicing this year, when the Central Bank has just $6.9 billion in foreign currency reserves.

The treasury paid $1.5 billion due on January 15 by drawing $1 billion from the Central Bank’s foreign currency reserves and borrowing from the Indian and Chinese central banks.

Addressing a recent Ceylon Chamber of Commerce conference, Central Bank governor Indrajit Coomaraswamy said he wanted $5 billion raised in the first quarter of 2019 to boost reserves in order to repay foreign debts. This was necessary in case of “any political uncertainty that may pop up later in the year.”

Coomaraswamy said: “The job of Central Banks is to prepare for the worst and we learnt this lesson on 26 October 2018. We don’t know what political tsunami might come next, so we have to plan and get the money in as fast as possible."

As part of this push, the cabinet early this month approved a $2 billion loan via international sovereign bonds. The Central Bank also told the government it intends to raise more funds this year from sovereign bonds in dollars, yen, renminbi and euros.

Much of the government's loan portfolio consists of commercial short-term loans at high interest rates. According to a recent study by Verite Research, a think tank, most of these loans, including international sovereign bonds, have a 6 percent interest rate and must be settled within seven years.

Sri Lanka's reliance on commercial loans increased dramatically during the past decade, rising from 11 percent of its debt in 2008 to a staggering 54 percent in 2017.

Much of this was to pay for the cost of Colombo's long war against the separatist Liberation Tigers of Tamil Elam and rising trade deficits. Loans were obtained through international sovereign bond markets, which expanded after the 2008 global financial crisis when the US Federal Reserve made available trillions of dollars after bailing out the banks and finance houses.

These investments are now being withdrawn due to rising interest rates in the US. According to reports, during the first ten months of last year, $640 million was withdrawn from Sri Lankan government securities. These withdrawals intensified following the political turmoil that erupted in Colombo last October.

Foreign currency outflows have directly affected Sri Lanka's rupee, depreciating it by about 20 percent against the US dollar last year and driving up the price of essentials.

The Central Bank governor said the economy faced "problems of fiscal and current account deficit while exports, which were 33 percent of the GDP [gross domestic product] in 2000, have now declined to 12.6 percent."

The rising cost of imports and stagnating exports have continuously expanded the country's trade deficit, which cannot be overcome by increased foreign investment or remittances by overseas Sri Lankan workers.

A January 27 comment in the Colombo-based *Sunday Times* noted that although loans being sought by the Central Bank and other Sri Lankan banks would "replenish the reserves and boost international confidence," they would increase the country's foreign debt liability.

"The repayment of debt obligations has been by further foreign borrowing, [because] foreign reserves were inadequate. This reveals the external financial vulnerability of the economy," the newspaper warned.

The deepening economic crisis and planned mid-February discussions with the IMF will see the Sirisena-Wickremesinghe government unleash even more brutal measures on the working class and the poor.