Sri Lankan austerity measures to deepen after terrorist attack

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Last month's terrorist bombings have compounded the mounting problems of the Sri Lankan economy. The government is seeking to impose the burden on the backs of the workers and poor, on top of the austerity measures prescribed by the International Monetary Fund (IMF).

Exploiting the suicide bomb explosions on April 21, President Maithripala Sirisena imposed a state of emergency and deployed thousands of military and police personnel. Under the pretext of "fighting terrorism," the government will use the sweeping anti-democratic measures to push through harsh attacks on social and living conditions.

Sunday Times columnist Nimal Sanderatne wrote last week: "[T]he cumulative impact of the current terrorism would be to destabilise the economy and slow economic growth." This "would impact adversely on the balance of payments, external financial position and fiscal outcome" and "increased external vulnerability would be the most serious consequence."

The LMD-Nielsen Business Confidence Index published last week noted that business confidence in April fell to its lowest in over a decade and "it is likely that confidence will fall further in May."

The new problems have come on top of the mounting economic difficulties produced by the global downturn. According to the 2018 Central Bank Annual Report, issued last month, economic growth declined to 3.2 percent in 2018, from 3.4 percent in the previous year. Per capita GDP (gross domestic product) fell from $US4,104 in 2017 to $4,102 in 2018.

At the same time, foreign debt repayments this year rose to a staggering $5 billion. Out of that amount, the government paid $1.5 billion by raising loans from India, as well as China. The government raised another $2.4 billion in March by selling sovereign bonds to shore up declining foreign reserves.

The Sri Lanka rupee has depreciated by 1 percent since the terrorist attacks, after depreciating by 16 percent last year.

The immediate concern of big business and the government is the impact of the bombings on tourism, the country's third largest source of foreign exchange earnings. Earnings from tourism last year totalled $4.4 billion, but that could decline by $1.5 billion this year according to Sanath Ukwatte, president of the Hotels Association of Sri Lanka.

The April 21 attacks targeted three churches and three luxury hotels in Colombo. At least 50 foreigners, mostly tourists, were among the dead. According to media reports, many hotel and resort bookings have been cancelled until October.

Tourism employs nearly 400,000 workers, many of them casuals whose employment is now under threat. Tens of thousands of small shopkeepers also have been affected.

Finance Minister Mangala Samaraweera declared last week that tax concessions would be granted for investments in the tourist sector, while banks announced a one-year moratorium on loan repayments.

Samaraweera urged foreign investors "to go ahead with their plans and not reverse or abandon them." He vowed: "We will quickly restore the status quo of 20 April and our resolve has become stronger."

Other foreign investments could be affected. Finance Ministry Secretary R.H.S. Samaratunga told the *Ceylon Today* there was a risk of portfolio investment outflows, particularly in the rupee-denominated Government Security Markets.

A 10 billion-rupee outflow of portfolio investment has been recorded so far this year, including 3.3 billion rupees after the bomb attacks, according to Central

Bank data.

The government has allocated 393 billion rupees for defence expenditure this year. This figure will increase as tens of thousands of military personnel have been deployed for house-to-house search operations for the first time since the end of communal war against the separatist Liberation Tigers of Tamil Eelam in May 2009.

Finance ministry officials told the *Ceylon Today* that "the focus must be on military intelligence and targeted surveillance. This may require some investments in technology." But "this expenditure could be managed within the budget by the realignment of spending priorities."

This "realignment" means the government will give priority to military expenditure, at the expense of social programs. During the 26-year war against the LTTE, successive governments imposed wage freezes and slashed welfare programs, including price subsidies, as well as expenditure on education and health, to prioritise war expenditure.

A day after the April 21 bombings, IMF Sri Lanka mission chief Manuela Goretti declared she was "deeply saddened by the Easter Sunday bomb attacks in Sri Lanka" but said there would not be any let up in implementing the IMF's demands.

Goretti reiterated her praise for the government's budget and insisted that "revenue-based fiscal consolidation" was important to "shore up market confidence given Sri Lanka's high debt and refinancing needs."

IMF press conference transcripts show that in May it decided to extend its fiscal deficit cut targets until June 2020 and to spread its final $500 million loan instalment into three parts. This means the IMF will keep a longer-term whip over the government.

The IMF's conditions for the $1.5 billion loan, approved in mid-2016, include cutting subsidies for workers and the poor, and the privatisation and commercialisation of state-owned enterprises.

During last year, real wages in the public and private sectors declined by 2 percent and 3.5 percent respectively, according to the Central Bank Annual Report.

Now that government revenue is expected to decline significantly, Reuters predicted that "budget targets agreed with the IMF may have to be reviewed," although "the government is expected to resist pressure for any spending cuts before elections expected later this year."

The Central Bank Annual Report insisted that implementing the IMF prescriptions was a priority. It declared that "economic performance has fallen below expectations in recent years impacted by the continued delays in the implementation of the required structural reforms."

In its efforts to justify spending cuts, the government has adopted the slogan: "national security first." It will seek to use the military-police repression and anti-Muslim campaign to suppress workers' struggles.