Sharp downturn in Sri Lankan economic growth

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The Sri Lankan capitalist class and the Sirisena-Wickremesinghe government confront twin economic predicaments—rapidly dropping economic growth and multi-billion dollar foreign debts that must be repaid in the next five years.

Prior to the April 21 suicide attacks carried out by Islamic fundamentalists, international rating agencies predicted that Sri Lanka's gross domestic product (GDP) growth rate this year would be 3.4 percent.

The terrorist bombings targeted three prominent Christian churches and three luxury tourist hotels, killing over 250 innocent people and injuring 500. The atrocities hit the tourism industry and triggered a withdrawal of foreign investment in government securities.

Tourism contributes 5 percent of the country's GDP. Before the attacks, tourism earnings were expected to rise from $US4 billion last year to $5 billion in 2019. This has been revised down to $3.5 billion.

On June 11, Central Bank Governor Indrajit Coomaraswamy declared it was "too early to fully understand the impact" of the terrorist attacks, but the country's growth rate could fall to 2.9 percent.

Nine days later, however, international credit rating agency Moody's reduced its prediction for this year to 2.6 percent.

The economic problems are not just a consequence of the terrorist bombings. The growth rate has been falling for the past two years. In 2017, it was 3.4 percent, the lowest in 16 years, and in 2018 dropped to 3.2 percent.

This is a product of the global downturn and cuts in government expenditure and austerity measures demanded by the International Monetary Fund (IMF). The IMF has ordered Sri Lanka to reduce its fiscal deficit to 3.5 percent of GDP, or half the rate it was in 2015.

Colombo is desperately seeking to boost the economy by expanding private bank lending. The *Daily ft* reported in late April that the Central Bank had called on "banks and finance companies to reduce interest rates on deposits… enabling lower rates on lending products in general, and to SMEs [Small Medium Enterprises] in particular, thereby enhancing credit flow to the real economy." This would reduce lending rates to SMEs by about 2 percent, the Central Bank declared.

However, the private banks and finance companies failed to cut their lending rates. Central Bank Governor Coomaraswamy said he expected their cooperation and added: "Clearly there is a national problem now and everybody has to play their part."

Moody's analyst Matthew Circosta told the media that the "primary challenge facing Sri Lanka" is its large external debt refinancing needs over the next five years. The government, he said, faced repayments of more than $3 billion annually and totalling $15.4 billion during 2020–2024.

Circosta warned that although funds could be raised from international markets, "the government is highly vulnerable to sudden shifts in investor sentiment that could affect the availability and cost of these funding sources." Apart from these debt repayments, Colombo has to find external sources to finance part of its budget deficit.

An IMF review of the country on May 17 said it faced "a tightening in global financial conditions and capital flow pressures [that] could raise refinancing risks." Growing trade tensions in key economies, "coupled with weaker global growth, could reduce export growth, FDI [Foreign Direct Investment], and remittances."

The review noted that "political uncertainty in the run up to the elections poses risks to program implementation.” That is a clear warning to the government and the parliamentary opposition that whoever wins the elections must implement the IMF’s dictates.

Two weeks ago, the finance ministry directed all government ministries to reduce their capital expenditure by 15 percent to help reduce the deficit.

In line with the IMF demands, the finance ministry is moving to commercialise or privatise all “loss-making institutions.” The number of loss-making state-owned enterprises (SOEs) doubled last year.

Finance Minister Mangala Samaraweera recently told a meeting of eight state-owned corporations that the government should “rethink” its continued support for loss-making entities.

The SOEs at the meeting included the Sri Lanka State Plantation Corporation, Co-operative Wholesale Establishment, Central Engineering Consultancy Bureau, State Timber Corporation, State Pharmaceuticals Corporation, Milco Ltd, National Livestock Development Board and Geological Survey, and the Mines Bureau.

Samaraweera said changes were necessary “to make these institutions profitable by increasing their productivity and financial position.” This inevitably means brutal attacks on jobs and working conditions.

A *Sunday Times* commentator nervously observed on June 23: “Those likely to be affected most by the economic downturn are the poor, whose employment, incomes, livelihoods and future are bleak in a stagnant economy. Government leaders talk about poverty alleviation, but their actions and words do not match.”

The economic downturn and massive debt burden mean that the government and the ruling elite must inflict even greater attacks on the social rights of workers and the poor, and turn to autocratic forms of rule to implement them. The real fear of the ruling elite is eruption of mass working-class resistance.

Last week, 3,000 railway engine drivers and various technical employees walked out to demand higher pay. Though union leaders limited the industrial action to two days, it was the first strike since the terrorist attacks. The stoppage, which is to be followed by a 24-hour walkout starting tonight, is another indication of the mounting working-class anger toward the government.