

# Sri Lanka: IMF presses new government to implement austerity

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An International Monetary Fund (IMF) team reviewed the economic policies of the new Sri Lankan government of President Gotabhaya Rajapakse and issued a cautionary statement requiring compliance with its drastic austerity measures.

In the statement of February 7, the IMF mission head for Sri Lanka, Manuela Goretti, pointed to Sri Lanka's repeated breaches of the prescribed fiscal deficit targets, risks associated with mounting foreign and domestic debts and, in veiled language, criticised the government's tax cuts.

"Given the high level of public debt and refinancing needs in the country, ensuring macroeconomic stability called for fiscal consolidation, prudent monetary policy, and sustained efforts to build international reserves," Goretti stated. She called for the implementation of "ambitious structural and institutional reforms" including the privatization and commercialization of state-owned bodies.

The so-called "prudent monetary policy" means keeping to the IMF's fiscal target. The previous government of President Maithripala Sirisena and Ranil Wickremesinghe obtained a bailout loan amounting to \$US1.5 billion in June 2016 and promised gradual reduction of the fiscal deficit to 3.5 percent of gross domestic product (GDP) in 2019. This was later extended to 2020.

The government adhered to the IMF's demands by slashing price subsidies and imposing taxes on essentials, driving up prices which severely affected the living conditions of workers and the poor. This triggered a wave of strikes and protests.

However, the fiscal deficit still shot up to 6.3 percent of GDP in 2019 and the projected rise in 2020 is 7.9 percent, more than double the IMF target. Goretti blamed this year's increase on "newly implemented tax

cuts and exemptions", other accumulated expenditure and the "low mobilization of revenue."

The IMF official also said the "Net International Reserves fell short of the end-December target" for 2019 "by about \$100 million amid market pressures after the presidential elections and announced tax cuts by the new government."

The Rajapakse government is desperately trying to patch up the ailing economy, which registered just 2.6 percent growth in 2019—the lowest since 2002. Responding to a section of big business, the government declared the need for "a stimulation program," by reducing the value added tax (VAT), and corporate and income tax. These taxes had been implemented under IMF-proposed amendments to the Inland Revenue Act. The revenue loss to the government due to tax cuts has been estimated at 500-800 billion rupees by the treasury.

Only big business was benefitted from the VAT reduction and other tax concessions. While it is usually not opposed to concessions to big business, the IMF wants to tighten the screws, as happened during the crisis in Greece, to squeeze the masses for the repayment of loans to international banks.

The IMF statement declared: "Given risks to debt sustainability and large refinancing needs over the medium term, renewed efforts to advance fiscal consolidation will be essential." It called for greater "efficiency in the public administration," which will mean job losses, and greater "revenue mobilization," which means high tax collection.

According to the IMF, Sri Lanka's estimated foreign debt will reach a staggering 64 percent of the GDP this year, while public debt will exceed 91 percent. According to the Central Bank, the government will have to pay \$4.8 billion to service its external debt this

year, and on average, \$5 billion a year over the next four years. Repayments on private sector debt will be another \$1.2 billion.

Significantly, the IMF did not mention the final installment of its existing loan amounting to \$145 million. At the end of 2018, the IMF withheld the sixth installment of its loan when President Sirisena attempted to remove then-Prime Minister Wickremesinghe. The installment was only released in November last year. Though the final amount is small, the government depends on the approval of international institutions like the IMF to raise more loans on the global money market.

As the IMF team discussion concluded, Prime Minister Mahinda Rajapakse told parliament on February 5 that the fiscal deficit would be reduced to four percent this year, indicating the government will bow to IMF demands.

Central Bank governor, W.D. Lakshman, told a conference of the Ceylon Chamber of Commerce on February 10 that “there are difficult decisions that ought to be made by the political leadership.” He declared that “the IMF should not be treated as an enemy” and called on the government to seek another IMF program.

The cash-strapped government is also looking for a delay in the repayment of foreign loans. During his visit to New Delhi early this month, Mahinda Rajapakse asked India for a three-year moratorium on loan repayments. He told the *Hindu*: “If the Indian government takes this step, then other governments might agree to do the same thing, including China.” Sri Lanka has loans amounting to \$6 billion from China.

In line with IMF demands, the government has already called on the private sector to invest in the government-owned production facilities such as the graphite mine in Kahatagaha. Industry and Commerce Minister Wimal Weerawansa told the media on February 10, that inactive SOEs such as the Eastern Valaichchenai Paper Mills, North Saltern and Ceylon Ceramic Corporation factory at Oddusudan are being “revived” as Public Private Partnerships (PPP). “Revival” will mean savage cost-cutting.

Facing a desperate financial crisis, the government sought parliamentary approval last week to lift the debt ceiling from 721 to 1,088 billion rupees. It also requested a 367 billion rupees supplementary budget

for urgent expenditure, blaming the previous government for its economic woes. However, it had to withdraw these requests last week at the last minute when the opposition United National Party rejected the proposals.

President Rajapakse is planning to dissolve parliament in the first week of March and hold a general election at the end of April. He is aiming at winning a two-thirds parliamentary majority to change the constitution and strengthen the president’s authoritarian powers. The extra money was in part to fund programs to win votes.

The IMF in its review predicted that Sri Lanka’s growth rate would rise this year and could reach 3.5 percent. However, economic commentators are pessimistic, warning of a deepening crisis amid the global downturn and geopolitical tensions. *Sunday Times* columnist Nimal Sanderatne warned on February 9: “Once again the Sri Lankan economy is facing severe external shocks.”

The IMF austerity program and worsening economic crisis will translate into major attacks on workers and the poor, setting the stage for a resumption and escalation of sharp class struggles in Sri Lanka as part of the growing global upsurge.



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