

Mired in debt, Sri Lankan government vows to avoid default

Saman Gunadasa
6 May 2020

As international rating agencies highlight the rapid deterioration of Sri Lanka's precarious debt situation as a result of the COVID-19 pandemic, the government has vowed to impose the austerity measures demanded by the financial markets in order to avoid a default.

P.B. Jayasundara, the secretary to the president, told the *DailyFT* last week: "Our commitment is Sri Lanka will under no circumstances dishonour debt obligations and investors' trust in our financial system...We certainly don't want to be an Argentina."

It is significant that Jayasundara compared Sri Lanka with Argentina, which defaulted on its foreign loans last year. Argentina's government last week cut wages by 25 percent and further slashed subsidies under the impact of the coronavirus crisis.

Since early March, 30 billion rupees has been withdrawn from the bond market. The collapse of the Colombo stock market from March 6 to 20 wiped out 355 billion rupees. Since then the market has been closed.

According to a Central Bank report issued on April 29, Sri Lanka's foreign debt is more than \$US55 billion. Global ratings agencies such as Fitch and Moody's have delivered dire warnings.

Moody's cited capital outflows, the devaluation of the rupee and low reserves in the face of large external debt service payments. It said the country has "very weak debt affordability." It expected "Sri Lanka's debt burden to rise to nearly 100 percent of GDP (gross domestic product)."

Morgan Stanley, a global investment bank, rated the sovereign bonds of crisis-ridden Pakistan and Ghana as better than Sri Lanka's, making it more challenging for government borrowings.

Similarly, on April 24, Fitch Ratings downgraded Sri Lanka's sovereign rating from B to B-, predicting the

"economic shock from COVID-19 would further erode rising public and external debt sustainability." Analysts warned that the printing of more money by the Central Bank could further downgrade the index.

Fitch added that it was difficult for Sri Lanka to raise funds from international financial markets to repay debt and the country had to look for alternative sources. This difficulty was evident recently. When the country offered \$60 million worth of bonds last week, only \$28 million was raised.

In the remaining months of this year, the government will have to pay \$3.2 billion for loans and interest, followed by \$13.8 billion for debt service from 2021 to 2023.

Foreign currency outflows from mid-February to early April totalled \$363 million as investors withdrew investments in bonds. Due to the pressure mounted by these withdrawals, the Sri Lankan rupee has devalued 6 percent against the US dollar since early March.

Fitch expects Sri Lanka's GDP to shrink by 1 percent in 2020 and the budget deficit to rise to 9.3 percent of GDP. This is almost three times the deficit target of 3.5 percent set by the International Monetary Fund (IMF).

Last week the *Economist* ranked Sri Lanka as the most stressed economy in South Asia and one of the worst in the world, placing it near the bottom, at 61, on its list of 66 "emerging economies" in "financial distress."

The government is desperately trying to use its strategic ties to borrow money. It sought \$400 million from India and \$1.5 billion from China in currency swaps, as well as a loan from the Asian Development Bank and an IMF loan of about \$800 million under a new Rapid Credit Facility.

The IMF has withheld the final installment of the \$1.5 billion loan it released in 2016, which was

conditional on harsh austerity measures. Any new package will have more strings, including the slashing of subsidies and the “restructuring” of the economy with the privatisation of government entities.

In a virtual meeting of the so-called Non-Aligned Movement on May 4, President Gotabhaya Rajapakse renewed his appeal for the debt relief. “Developing countries are facing an unprecedented economic and debt crisis,” he said, and “the need for debt relief and financial stimulus for these countries must be duly recognised.”

Because of the worst global slump since the Great Depression of the 1930s, exports from South Asian countries to consumer markets in Western countries have declined drastically.

Big business and the government are translating this crisis into a massive attack on jobs, wages and all hard-won workers’ rights, including the eight-hour working day, leave entitlements, pension funds, and overtime and incentive payments.

Rajapakse is issuing directive after directive on how state and private sector workers should be employed as businesses are re-opened. However, his plans to lift the curfew and resume work in Western Province, including the Colombo district, had to be postponed due to a surge of COVID-19 cases, nearing 800 infected patients.

The government has now decided to begin recalling limited numbers of workers in the province from next Monday, while retaining the curfew. According to Rajapakse’s latest directive on Monday, companies can decide how many employees to recall, allowing them to impose drastic job cuts.

Indicating the harsh attacks being prepared against workers, the National Exporters Chamber (NEC) wrote to Skills Development, Employment and Labour Relations Minister Dinesh Gunawardena proposing various measures, such as “the exporters to use only the required number of workers and pay wages on a piece rate system or terms agreed with the employee.”

This amounts to summarily laying off unwanted permanent and casual employees and converting the whole workforce to contract workers. The NEC also urged the minister to permit work on Sundays and public holidays without proper compensation and to suspend pension fund deposits for six months. Several companies are already implementing such measures.

The NEC warned that if these measures were not permitted, mass layoffs could trigger workers’ protests that could lead to a “catastrophic outcome which will be a severe setback to the country.”

On Rajapakse’s orders, the Central Bank has so far pumped 240 billion rupees into commercial banks. The biggest chunk of this is being used to save big business. Small and medium businesses complain that they have received no relief from the government.

At the same time, the government continues to impose the burden of crisis on workers and the poor, with the start of a new round of lifting price controls on essentials. The price of dhal, which was 65 rupees a kilogram, skyrocketed by about 150 percent. Canned fish and sugar prices went up by about 100 percent and 20 percent respectively.

The government and the capitalist class are fully aware that the ruthless attacks on jobs, wages and living conditions are likely to trigger a wave of class struggles. Rajapakse is preparing dictatorial measures and last week mobilised large numbers of troops in Colombo and throughout the country.



To contact the WSWs and the
Socialist Equality Party visit:

wsws.org/contact