Sri Lankan stock market hits record high amidst rising COVID-19 infections

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Over the past four weeks, Sri Lanka's wealthy have become 739 billion rupees ($US3.8 billion) richer through a 25 percent rise in the Colombo Stock Exchange (CSE).

Last week alone, major players in the CSE amassed 318 billion rupees, an increase that dwarfs the 109 billion rupee rise for the whole of 2019.

The spike in Sri Lanka's small share market occurs amidst an exponential growth of COVD-19 infections. As of yesterday, confirmed cases have increased 20-fold since October, to more than 60,000, and deaths by 26 times, to almost 300. The CSE rise has been accompanied by growing poverty, rising unemployment, wage cuts and a higher cost of living.

Jubilant over the ballooning share market, Prime Minister Mahinda Rajapakse, who is also the finance minister, tweeted: "It's also among the best performing indices in the world so far in 2021. I thank investors for having faith in the Sri Lankan companies. The GOSL [government] is committed to fulfilling its mandate to revive the Sri Lankan economy."

The CSE bubble, however, is the direct result of massive amounts of "free money" provided as part of President Gotabhaya Rajapakse's pandemic stimulus package for big business last July. The package involved the Central Bank releasing 230 billion rupees and reducing bank rates by 2.5 percent to between 4 and 4.5 percent. Last year, the government also printed 650 billion rupees.

Most of this year's share value increases were recorded by LOLC (Lanka Orix Leasing Company), which is involved in leasing, hire purchase, insurance and other financial activities, and the Hayleys conglomerate, which is engaged in the import-export industries related to rubber production and managing plantations. The country's two top billionaires—Ishara Nanayakkara and Dammika Perera—head these respective companies.

The Securities and Exchange Commission (SEC), a CSE regulatory body, issued a second cautionary note about share market manipulations by top businessman, including Nanayakkara and Perera, on Tuesday. The note warned that "all investors and the general public are hereby advised/cautioned not to rely on such unsolicited stock tips/investment advice circulated through bulk SMS, websites and social media platforms."

Big business is reaping windfall benefits and profits from Colombo's measures to boost foreign investment. Apart from providing cheap money, this year's budget reduced tax rates to 14 and 18 percent, the lowest in South Asia, and big investors were given staggering 15-year tax exemptions.

The Colombo share market increases are a small reflection of the massive rises on the US, EU and Indian stock markets. Since last March, the US Federal Reserve has pumped out $120 billion per month or more than $1.4 trillion a year, pushing up the share market. Warnings have already been issued that the Wall Street share bubble may burst.

While Colombo's share market boom continues, the country's economy faces an unprecedented crisis that has been deepened by the global pandemic.

Last year, the Sri Lankan economy contracted by 3.9 percent. The country needs $23 billion for debt servicing payments up to 2024, including $7 billion due this year. Foreign currency reserves have fallen to about $5 billion, which is only sufficient for four months of imports, and last year export earnings fell by 17 percent.

Global rating agencies, such as Moody's, S&P, and Fitch, have downgraded Sri Lanka's credit rating to the "substantial risk" level Caa1, CCC+ and CCC respectively, which adversely affects the country's ability to borrow. Angered by the downgrades, the government and the Central Bank rejected those reports, claiming they were "false." The massive debts and the decline in economic growth make clear that the current CSE share market bubble is extremely fragile.

While Rajapakse's policies are massively benefiting the rich—workers and the poor are bearing the burden of the deepening social crisis.

Responding to corporate demands, Rajapakse began reopening the economy in late April, after a short-lived lockdown. The government directed employees to return to their workplaces, but with negligible safety measures, and most schools were opened.

In line with his counterparts around the world, Rajapakse declared that the people had to "live with pandemic" as the new normal. As a result, tens of thousands of COVID-19 infections have been reported since September.

Colombo also allowed companies to retrench workers, impose wage cuts and slash conditions, including through increased workloads. Informal sector workers, who make up around 70 percent of the total workforce, have been the most heavily impacted.

The Rajapakse administration, using a variety of excuses, has also slowed the repatriation of hundreds of thousands of migrant workers wanting to return home. Many have lost jobs, income and are stranded abroad. Some are homeless. Thus far, 89 Sri Lankan migrant workers have died from COVID-19.

The cash-strapped Colombo regime is cynically discouraging still employed migrant workers from returning home in order to maintain the flow of foreign exchange. Last year, immigrant workers sent back $7 billion in remittances, a growth of 5.8 percent over the previous year.

Domestic living expenses are soaring due to increased taxes on essential food items and other goods and the ongoing devaluation of the currency. Since the beginning of the year, the rupee has fallen between 185 and 200 rupees to the US dollar.

By the end of 2020, the official food inflation figure had climbed to 10 percent. Over the last few months, the market price of basic foods, such as rice, dhal, onions, sprats and sugar has drastically increased, dragging sections of the working class and the peasantry towards starvation.

According to World Bank estimates, the number of Sri Lankans living on less than $US3.2 per day has increased from 8.9 percent in 2019 to 13 percent last year. These figures show that 890,000 more people have been driven into poverty over that period.

The trade unions are actively collaborating with the government and the major corporations to develop cost-cutting "tripartite agreements." Colombo's tripartite task force consists of the unions, employers and the labor minister or his senior officials who regularly meet to discuss how to impose the burden of the deepening crisis.

During the 2008–09 global financial crisis, Sri Lanka's trade unions rushed to collaborate with employers and the government, overseeing the closure of 500 factories and the retrenchment of hundreds of thousands of workers.

The global catastrophe triggered last year by the COVID-19 pandemic, however, is far worse.

There is deep-seated opposition among broad layers of the population to the attacks on social and democratic rights. The recent strikes by plantation, health and apparel workers anticipate a massive eruption of the class struggle.