Bloomberg says Sri Lanka is the highest risk of foreign debt default in Asia

Saman Gunadasa
16 July 2021

Bloomberg reported last week that Sri Lanka was the highest default risk in the Asia-Pacific, overtaking Papua New Guinea, Kazakhstan, Mongolia, Pakistan, Malaysia and Indonesia.

The news agency's "debt default probability" scale now rates Sri Lanka at almost 28 percent, up from 13 percent six months ago. Under Bloomberg's model any country rated over 1.5 percent is deemed to be at "a high risk of failure to pay."

The news agency said that Sri Lanka's "first test comes on July 27," when it must repay a $US1 billion bond to investors. "[S]peculation is growing," it continued, "that it may need to turn to the International Monetary Fund [IMF] for additional finances after securing assistance from countries including China."

Attempting to downplay the deepening crisis, Sri Lanka's Minister for Finance and Capital Markets Ajit Nivard Cabraal insisted that loans would be repaid on time. He cited government controls on foreign exchange and short-term swap agreements with China, India and Bangladesh.

In March, the Rajapakse government obtained a $1.5 billion currency swap line from Beijing. The Sri Lanka Central Bank is also expecting a $250 million swap facility from Bangladesh and $400 million from the Reserve Bank of India. The Central Bank's arrangements, however, are a desperate attempt to postpone any default on foreign debts.

Pointing to Colombo's ongoing debt crisis, Fitch Ratings has revealed that the government will have to find $29 billion between now and 2026 to service debt repayments.

Sri Lanka is reeling under the impact of an economic crisis exacerbated by the global pandemic, with export income and remittances falling drastically and tourism having all but collapsed. The Central Bank this year has made about $1 billion in debt repayments. As a result, the country's foreign currency reserves dropped to $4 billion by the end of June, sufficient for only 2.7 months of imports.

The Rajapakse government has already curtailed a host of imports, including essential food items, automobiles, fertilisers and pesticides and last month increased fuel prices, pushing up the cost of transport and many essential items.

Earlier this month the Central Bank, in a bid to save foreign exchange, planned to curb imports of electronic goods, such as televisions, refrigerators, washing machines and mobile phones. The measure was abandoned, after news of the plan was leaked to the media.

The Central Bank printed around 650 billion rupees in 2020, a program it has intensified this year with 230 billion printed last month alone. The attempt to overcome falling government revenue has only succeeded in increasing the already-high rate of inflation.

The Sri Lanka rupee rose to around 200 rupees for a US dollar, a 6 percent increase on the rate early this year.

Amid the intensifying crisis, President Gotabaya Rajapakse last week appointed his younger brother Basil Rajapakse as finance minister. He is the national organiser of the ruling Sri Lanka Podujana Peramuna and the fifth Rajapakse brother in the cabinet.

The finance ministry was previously held by Prime Minister Mahinda Rajapakse, the president's elder brother. Basil Rajapakse's appointment as finance minister does not indicate a rift within the ruling cabal but is to strengthen the government's hand in preparation for even sharper austerity attacks on the working class and the rural masses.

Basil Rajapakse appealed to the media and the trade unions to help the government "overcome the challenges the country is facing on multiple fronts" soon after his appointment as finance minister. "We have overcome worse political challenges mainly because of everyone who supported us," he added, but "unpleasant actions might have to be taken."

Rajapakse's reference to "overcoming worse political challenges," relates to two ruthless actions taken by President Mahinda Rajapakse's government to defend Sri Lankan capitalism from 2005 to 2014—the final years of the bloody communal war against the separatist Liberation Tigers of Tamil Eelam, and its response to the global financial crisis in 2008–2009.

All of Sri Lanka's opposition parties, trade unions and the media backed the communal war, which ended in May 2009 with the killing of tens of thousands of Tamil civilians. Ordinary people who criticised the government's actions were murdered, "disappeared" or severely tortured. At the same time, the government obtained massive foreign loans to finance its war, with workers and the poor made to pay with wages frozen and social expenditure slashed.

Colombo responded to the 2008–2009 financial crisis by retrenching around 500,000 employees and imposing IMF-dictated austerity measures to secure a $1.5 billion bailout loan. In 2016, the IMF refused the last instalment of another $1.5 billion loan obtained by the Sirisena-Wickremesinghe regime, citing its failure to reduce the fiscal deficit to 3.5 percent of gross domestic product (GDP).

Over the past 18 months, President Rajapakse has spouted nationalist rhetoric, curbed imports and implemented new austerity measures, while insisting that his government would not have to turn to the IMF. Last week, however, the *Sunday Times*, citing a treasury official, reported that the government would request $800 million under IMF special drawing rights.

In February 2020, the IMF reviewed the Sri Lankan economy and said: "The authorities should move ahead with growth-enhancing structural reforms to fully harness Sri Lanka's economic potential." It repeated its call for the privatisation or commercialisation of all state enterprises, further cuts to public education and health, more state sector sackings and other measures.

The Rajapakse regime, however, will have to implement even harsher austerity policies than those proposed last year by the IMF, which were issued before the full impact of the COVID-19 pandemic.

Colombo's decision to print billions more rupees and provide generous tax concessions to big business, saw Sri Lanka's fiscal deficit climb to 11 percent of GDP last year. Economists have calculated, however, that the real figure is a staggering 14 percent.

In line with the president's criminal policy of prioritising profits before human lives, Finance Minister Rajapakse has also confirmed that he will push for the abandonment of the remaining coronavirus health restrictions. At a meeting this week with other ministers, he emphasised the need to "revitalise the manufacturing base of the country," warning that unless this occurred, "the government will fall short of money to run the economy."

Last month, the Federation of Chambers of Commerce and Industry of Sri Lanka wrote to the government, urging it to take more measures to boost their activities and profits. The big-business lobby group wants new laws to expand home/remote work, part-time employment, contract work and flexible hours. It has also demanded more restructuring of state-owned enterprises in order to exploit those industries and services. These job destruction demands will further increase unemployment and poverty, which according to some commentators is over 10 percent.

Colombo's attacks on jobs and social spending will fuel the eruption of mass struggles despite the desperate efforts of the unions, opposition political parties and the media to prop up the Rajapakse regime.

In line with an unfolding wave of struggles by the international working class, Sri Lankan workers have begun resisting the government and big business attacks as indicated by widespread strike action and demonstrations in the health, education, administration, electricity, railways and plantation sectors in recent months.