International Monetary Fund calls for drastic austerity measures in Sri Lanka

Saman Gunadasa
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Early this month, as COVID-19 and the UN-NATO war drive against Russia battered the Sri Lankan economy, the International Monetary Fund Executive Board issued a report proposing brutal austerity measures to "solve" the country's economic crisis. The program is a prescription for driving workers and the poor into even deeper poverty and starvation.

The IMF report noted that Sri Lanka had been "hit hard" by COVID-19 and faced a "highly vulnerable situation" with inadequate foreign reserves and an unsustainable public debt.

The Sri Lankan authorities' response to the pandemic, the report said, was to implement "a broad-based set of relief measures," including macroeconomic policy stimulus, an increase in social safety net spending and loan moratoriums for businesses, which led to increased government expenditure. As a result, the annual fiscal deficits for 2020 and 2021 exceeded 10 percent, it added.

In reality, the Rajapakse government's "relief measures" consisted of a meagre handout to the poor during the COVID-19 lockdown while providing hundreds of billions of rupees as "stimulus" for big business.

The IMF report warned that Sri Lanka had recorded negative 3.6 percent growth in 2020, with growth for 2021 estimated to be 3.6 percent. Public debt has grown to 119 percent of the GDP, foreign reserves have dried up and foreign loans repayment commitments will be $US7 billion for 2022 alone.

Implying that an economic implosion is imminent, the IMF Executive Board proposed a detailed list of austerity measures including:

* Restoring macroeconomic stability and debt sustainability, with "expenditure rationalisation, budget formulation and execution, and the fiscal rule" and the removal of state subsidies with meagre subsidies limited only to the "poorest of the poor."

* Increasing interest rates.

* Reform state-owned enterprises, that is, privatisation and commercialisation of government corporations.

* The adoption of "cost-recovery energy pricing," which means further increases in the price of fuel and electricity and the withdrawal of treasury funding for the Ceylon Petroleum Corporation and Ceylon Electricity Board.

* Increased taxation, including income tax and value added tax (VAT) and "revenue administration reform."

* "Gradual return to market-determined and flexible exchange rates," which means further devaluation of the rupee and higher prices for imported goods.

While the Rajapakse government has not yet approved the IMF program, Finance Minister Basil Rajapakse is scheduled to visit New York in early April for discussions.

The masses have already been devastated by the pandemic, scarcities of essentials and escalating commodity prices.

Like its counterparts around the world, the Rajapakse government's criminal "profits before human lives" policies have seen COVID-19 infections rising to 655,000, even with abysmally low levels of testing, and the official death toll climb to over 16,370.

Sri Lanka's official year-on-year rate of inflation in February hit 15.1 percent with food inflation 25.7 percent, a steep rise from September 2020. Food prices have increased by 35 percent since February 2020.

The government has resorted to extended power cuts because of a scarcity of US dollars to pay for the oil shipments needed for thermal power generation. People are being forced into long queues to obtain cooking gas and fuel, while some essentials, including important medicines and milk powder, are not available.

On March 7, five days after the IMF released its report, the Central Bank devalued the rupee against the dollar by

15 percent to 230 rupees and allowed its value to be determined by the market. Last Thursday, the rupee climbed to 260 rupees a dollar and on Friday hit 265 rupees, setting the stage for further increases in inflation.

The Central Bank increased interest rates by 1 percent on March 7 while proposing higher prices for fuel, electricity, and water.

Interest rate increases by the US Federal Reserve and other major central banks, in response to rising inflation amidst the global pandemic, have heavily impacted on Sri Lanka and many other so-called emerging market economies and low-income countries.

The Russian invasion of Ukraine, the US-NATO war drive and anti-Russian sanctions by the US and European imperialists are also hitting Sri Lanka hard.

An article entitled “Ukraine crisis batters Sri Lanka’s tea and tourism recovery strategy,” published in the *Financial Times* on March 7, noted that Sri Lankan tea sales to Russia, the second largest buyer of Sri Lankan tea and worth around $US500 million, could be blocked.

The rising oil prices caused by the Ukraine conflict, now exceeding $130 per barrel, is further depleting Sri Lanka’s very limited foreign currency reserves. Russia and Ukraine are respectively the first and third largest source of tourists to Sri Lanka.

The IMF’s warnings were released two weeks after the *Financial Times* published an editorial warning that Sri Lanka and Zambia were the most vulnerable of the world’s most heavily-indebted emerging economies.

Headlined “Better mechanisms are needed to help Sri Lanka, Zambia and others resolve their debts,” it declared on February 15 that the IMF existed to deal with such situations and insisted that reforms were needed to “put their economies back on track.”

Zambia has already agreed to implement IMF austerity measures and is moving to restructure its $15 billion debt, especially with China, a significant creditor of both Zambia and Sri Lanka.

As in all highly indebted countries, an IMF “restructuring” intervention or outright default will lead to harsh social attacks on the working class, as international finance capital demands a continuous inflow of money into its coffers.

Moody’s, S&P, Fitch and other ratings agencies have downgraded Sri Lanka’s credit rating to junk status and urged Sri Lanka to accept IMF intervention.

The Rajapakse government has already obtained swap facilities to avert a default, mainly from China and India, and is also seeking another $US1 billion loan from India.

On March 6, the *Sunday* Colombo-based *Tim* that Finance Minister Rajapakse was told by the Indian government that until he presented a plan for “economic recovery”—in other words, harsh austerity—it would be difficult for India to crisis-manage the Sri Lanka’s financial situation. Basil Rajapakse is scheduled to visit New Delhi later this month for discussions with India’s External Affairs Minister S. Jaishankar.

On March 7, Sri Lanka’s big business lobby groups held a joint media conference echoing IMF demands and urging the government to engage with the IMF.

Big business representatives called on the government to cut subsidies, establish a “market driven pricing formula” for fuel, gas and electricity and allowing exchange rate flexibility. They also warned that apparel exporters were threatening to relocate their factories to Bangladesh, Vietnam or Africa and destroy thousands of Sri Lankan jobs if the economic crisis continued.

Construction companies said building materials shortages were threatening their 650,000-strong workforce. They have already shed around 50,000 workers due to stalled projects and other disruptions.

“Go to the IMF” has become the mantra of almost all economists in Sri Lanka and the opposition parties. Samagi Jana Balawegaya, the main parliamentary opposition party, and the United National Party had called for the IMF report to be presented and debated in parliament.

Seeking to enlist their support for austerity measures, President Rajapakse announced plans to hold an all-party conference. The political establishment as a whole is determined to make the working class pay for the economic crisis and to use repressive measures to suppress opposition.

Last year mass strikes and protests involving hundreds of thousands of workers took place in the health, education, state administration, railways and plantations sectors demanding higher wages and better conditions.

New rounds of austerity measures will produce even greater struggles of the working class and the rural masses and bring them into direct political confrontation with the Rajapakse government.