Sri Lanka at centre of growing debt and inflation crisis

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8 April 2022

Sri Lanka, now engulfed by ongoing demonstrations and protests, is at the centre of a debt storm ripping through a swathe of lower-income countries. This is bringing social devastation for hundreds of millions of people as capitalist governments, banks, financial speculators and the International Monetary Fund (IMF) demand their pound of flesh.

This crisis has been building for years but reached a new peak of intensity because of the COVID-19 pandemic and now the explosion of the prices of basic commodities, including foodstuffs, gasoline, fuel and cooking oils, flowing from the US-NATO proxy war against Russia in Ukraine.

Yesterday, the United Nations announced that its food price index for March had reached a record high, increasing by 34 percent from a year ago. The index was 12.6 percentage points higher than in February. The UN described this as a "giant leap."

The crisis is about to be further exacerbated by the drive by central banks around the world, led by the US Federal Reserve, to sharply lift interest rates over the next months in response to rising inflation.

Sri Lanka's foreign currency reserves are plunging, with doubts about whether it will be able to pay any of the estimated $8.6 billion in debt repayments due this year. On Thursday, the Sri Lankan central bank reported that the country's foreign currency reserves had fallen to $1.93 billion in March, down 16 percent from $2.3 billion in February.

The Sri Lankan situation is the sharpest expression of a global process that has developed over the past decade. At the end of January, a report by the British-based Jubilee Debt Campaign estimated that developing country debt payments increased by 120 percent between 2010 and 2021. Average government external debt was estimated at 14.3 percent of government revenue in 2021, compared to 6.8 percent in 2010.

In January, the World Bank estimated that lower-income nations would have to pay $35 billion to official and private sector lenders in 2022, an increase of $10.9 billion over the previous year and a rise of 45 percent since 2020.

Since those estimates were issued, barely two months ago, the financial position of these countries has dramatically worsened because of the further boost to inflation by the war in Ukraine.

The debt crisis has been intensified by the ending last December of the Debt Service Suspension Initiative (DSSI) introduced by the G20 group of nations in April 2020. The DSSI has proved to be, in the words of the *Financial Times*, a "damp squib."

It aimed to defer $20 billion in debt, but the relief was only $12.7 billion, and countries have had to resume payments this year and recognise debts suspended under the scheme.

The biggest beneficiaries of the DSSI were the commercial banks, commodity traders and bond holders, which received $14.9 billion while suspending only $24 million, or just 0.2 percent, of the amount due. Tim Jones, the head of policy at Jubilee, said the DSSI had "effectively become a bailout scheme for private lenders."

An analysis by the Bretton Woods Project published earlier this month observed that "countries in debt distress like Zambia are being forced to make payments to private creditors like BlackRock [the world's biggest asset management company], at the expense of their own population's wellbeing."

As part of the US push against China, there has been a growing campaign to blame its loans for the mounting debt crisis.

But Jubilee reported that of the debt repayments due this year, 47 percent are to private lenders, 27 percent to multilateral institutions, 12 percent to China and 14 percent to other governments. The Chinese loans were either on terms in line with those of the IMF and other multilateral lenders, or better.

There is no solution to the debt crisis under so-called debt restructuring. Any such measures will be employed as they have been in the past—to impose even further austerity measures on the population, with much of the money used not to finance productive investments or social spending but to pay off the holders of past debts.

In Sri Lanka, the Socialist Equality Party has raised the necessity for debt repudiation and the expropriation of the wealth of the banks and the ultra-wealthy as an immediate first step in tackling the crisis and for a turn to the working class in other countries in a common struggle.

The conditions for the development of this orientation—a unified global struggle against the financial octopuses starving and strangling hundreds of millions of people—have been created by the eruption of strikes and protests around the world over the past few weeks.

These developments have sent a shiver of fear through sections of the US political establishment.

Members of the Senate Foreign Relations Committee this week sent a letter to President Biden warning that the “grave global food security crisis” flowing from the Ukraine war was threatening “to push millions of people into hunger and destabilize regions of strategic importance to the United States.”

But assistance in alleviating the food crisis will not come from the US. Politico reported that while US officials have been working to alleviate shortages they are running into problems. Wheat reserves, including in the US, are running lower than normal as the result of a drought and “governments with grain surpluses have been reluctant to release too much of their supply, including Canada.”

In other words, on the food crisis, poorer countries will receive the same treatment as they have had when a global rollout of COVID vaccines was blocked by the vaccine nationalism of the major powers.

Sarah Charles, a leading official of USAID, testified to a Congressional subcommittee that the “impacts of the current crisis on poverty, hunger, and malnutrition could be even more significant than those seen in the global food price crisis of 2007–2009 and the subsequent civil unrest, as the last crisis followed a period of strong economic growth, whereas the years since the onset of the COVID-19 pandemic have been characterized by an increasingly worse global economic downturn.”

In the Yemeni city of Aden, she noted, the price of a piece of bread increased by 62 percent between February 25 and March 3. In Lebanon, domestic food inflation had reached 483 percent.

In South Africa, protests had doubled to more than 1,000 a year since 2018 amid warnings that the country was “likely to have entered a phase of ongoing violent instability.”

In an interview with the BBC on Thursday, the Eurasia Group think tank director Daniel Kerner was asked whether there could be a wave of social explosions in Latin America, such as took place at the end of 2019.

He replied: “Yes, in 2019, we were seeing much discontent in many places, and it’s true that the pandemic put a pause to the problem. But at the same time it was just a pause and now the situation is much more explosive.”

Summing up the fears in ruling circles, a report by the German Friedrich Ebert Institute said: “As was said in the days of the French Revolution, if the population has no bread, those in power are threatened with disaster.”

The crisis is not confined to poorer countries. Workers in the major economies, including Britain, the US and Australia, are starting to initiate action to secure wage rises in the face of rampant inflation, which the Bank of England governor Andrew Bailey has said will deliver a “historic shock” to incomes.

The unification of this global movement and the fight to arm it with a socialist perspective will be at the centre of this year’s May Day rally convened by the *World Socialist Web Site* and the International Committee of the Fourth International.