

Sri Lankan finance minister declares austerity will get worse before it gets better

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Addressing the Colombo media from Washington last Friday, Sri Lankan Finance Minister Ali Sabry signalled that harsh austerity measures were being dictated in talks with the International Monetary Fund (IMF). Sabry is leading the negotiating team seeking emergency loans and debt restructuring to help deal with the immense economic crisis confronting the country.

Sabry said: “Although it is going to be painful couple of years, I think the IMF opportunity is a moment for us to seize irrespective of all differences.” The government and the political establishment as a whole will accept the IMF’s terms, but the “pain” will inevitably be imposed on the vast majority of the population—working people and rural toilers.

The finance minister tried to put the best possible face on the situation, declaring: “I am confident that Sri Lanka can overcome this economic crisis.” He then added: “Of course, it is going to be worse before it gets better.” Given the global economic turmoil, workers can have no confidence that the social disaster they confront will get better in two years.

Sabry said: “For emergency financing, the Government is considering options from various countries such as India, China and Japan in addition to the World Bank and the Asian Development Bank (ADB).” The World Bank is supposed to provide \$US300-600 million “bridging finance” immediately, while ADB has indicated it will provide \$21 million to import medicines.

Sri Lanka is not able to raise commercial funds, as rating agencies including Moody’s, Fitch and S&P have downgraded the country’s credit rating to junk status. The Sri Lankan rupee has depreciated by almost 70 percent, to 340 rupees to the US dollar, in less than two months. The country has already declared a

temporary default on its foreign loans.

Sri Lanka’s worsening economic crisis is an acute expression of the global economic downturn that has been exacerbated by the two years of the COVID-19 pandemic and now the US-NATO proxy war against Russia in Ukraine, along with the associated crippling economic embargo against Moscow.

Sabry’s comments come as the island is engulfed in mass protests demanding the resignation of President Gotabhaya Rajapakse, Prime Minister Mahinda Rajapakse and the government over the economic and social crisis. At the main protest site, Galle Face Green in central Colombo, thousands have been protesting day and night since April 9.

Working people must wait in long lines for hours just to buy the basics, which are not always available or affordable. Prices are soaring. The price of cooking gas cylinders and other everyday items doubled over the past week, putting them out of reach of many. At least six people have died queuing for essentials.

The protests have further escalated as a result of the widespread anger over the police shooting at protesters against fuel price hikes in the provincial town of Rambukkana on April 18. A worker, Chaminda Lakshan, was killed and two dozen others were injured.

The escalating protest movement has deepened the political crisis of the Rajapakse government, which has effectively lost its parliamentary majority with the desertion of more than 40 of its MPs. The police killing of Chaminda Lakshan is an ominous sign that it is prepared to resort to police state measures to try to crush opposition to the IMF austerity agenda.

IMF Sri Lanka Mission chief Masahiro Nozaki told Reuters: “The country needs to take steps to restore debt sustainability prior to any IMF lending, including the emergency Rapid Financing Instrument (RFI).”

The IMF's insistence on "debt sustainability" as the precondition for any fund release is to ensure that the country's international creditors—half of them commercial investment houses—are paid while the full burden of the crisis is imposed on working people.

The finance minister is to appoint financial and legal experts to speak to the creditors within the next 15 days. One such expert, Lee Buchheit, specializing in imposing hardship in South American countries, has already briefed the Sri Lankan delegation. In Belize for instance—a country which declared bankruptcy in 2020—public sector wages were slashed and a broad-based general sales tax was imposed.

Sabry has already foreshadowed fiscal, institutional and tax reforms. The measures include raising income and value-added taxes; increasing fuel prices and electricity prices; instituting a market-determined flexible exchange rate; cutting the fiscal deficit, i.e., slashing social spending; and "restructuring" the state sector through privatization, corporatization and contracting-out, which will drastically destroy jobs and working conditions.

In an interview with Bloomberg News, Sabry said Sri Lanka's present tax revenue had to be increased from 8.6 percent to 13-14 percent of the gross domestic product (GDP). This can only be done by widening and increasing direct taxes on working people in addition to increases in indirect taxes on food and other essentials.

The working class, youth and rural toilers will not passively accept new harsh austerity measures dictated by the IMF. Hundreds of thousands, if not millions, have protested against the already intolerable conditions they face and demanded the resignation of the government.

However, matters cannot be left in the hands of the Colombo political establishment—the government or the opposition parties, which all agree that the burden of the economic crisis must be imposed on working people.

The Socialist Equality Party urges workers to form action committees in every workplace, plantation and neighborhood, independent of the trade unions that have sabotaged the wave of strikes over the past two years.

The SEP has elaborated a series of demands around which the working class can wage political fight including the repudiation of the foreign debt. Workers

and the poor should not starve to pay off debts incurred by the corporate and financial elite in Colombo.

A powerful movement of the working class would win the support of large sections of the rural poor and establish the basis to fight for a workers' and peasants' government to implement socialist policies to meet the pressing needs of the majority, not the profits of the super-wealthy few.



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