Sri Lanka defaults on foreign debts, prepares to implement IMF austerity

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Sri Lanka missed its foreign debt repayments on May 18, amid a rapidly worsening economic and political crisis. The country was unable to pay $US78 million in interest on two sovereign bonds due on May 18, after one-month grace period.

Sri Lanka is the first country in the Asia-Pacific to default on its foreign debt in more than two decades since Pakistan defaulted in 1999. The *Guardian* warned: “Economists fear Sri Lanka could be first of several, with the IMF [International Monetary Fund] in talks with Egypt, Tunisia and Pakistan.”

Sri Lanka first declared its inability to make repayments on $51 billion foreign loans on their due dates on April 12, citing shortage of dollar reserves but insisting this was not a “hard default.” The Central Bank of Sri Lanka expected to establish a negotiated consensus with creditors for “debt restructuring” before the repayment dates.

However, the political crisis of the government led by President Gotabhaya Rajapakse has only intensified over the past month. Daily anti-government protests are widespread against unending price increases and shortages of essentials such as food, medicine, fuel, cooking gas as well as lengthy power cuts.

After a general strike on April 28, millions joined the general strike on May 6 that embraced every section of the working class. It was backed by the poor and oppressed and small businesses, shutting down almost the entire economy.

Then Prime Minister Mahinda Rajapakse was forced to resign on May 9 after his Sri Lanka Podujana Peramuna (SLPP) thugs physically assaulted the anti-government protesters including those occupying Galle Face Green in central Colombo, provoking retaliatory attacks.

After imposing a state of emergency on May 6 and deploying military on the streets with orders to shoot rioters on sight since May 10, President Rajapakse appointed United National Party leader Ranil Wickremesinghe to be prime minister and implement the IMF’s austerity demands.

A disparate cabinet of 19 ministers has been cobbled together, picking up MPs from the opposition parties and also Rajapakse’s SLPP. Of them, eight were sworn in only yesterday. However, Rajapakse and Wickremesinghe have failed as yet to fill the key post of finance minister.

Central Bank Governor Nandalal Weerasinghe last Thursday said the default was announced in advance and claimed: “Our position is very clear. Until they [lenders] come and restructure, we can’t pay.”

On May 11, Weerasinghe was threatening to quit his post if there was no political stability. However, last Thursday he said he made the statement then because there was no prime minister or cabinet, and “there was a lot of violence and political instability.” Now, he claimed, “there is a significant improvement,” while acknowledging there was still no finance minister to sign a loan agreement with the IMF.

Weerasinghe did not reveal details of the IMF program. However, he admitted that inflation is expected to reach 40 percent during the next couple of months—up from 30 percent in April. In other words, there will be no end to the intolerable conditions facing workers and the poor, many of whom are now threatened with starvation.

Sri Lanka is expecting $3 to $4 billon from the IMF. The technical discussions with the IMF on a bailout loan are scheduled to conclude today. Its spokesman Gerry Rice Sunday said: “We remain committed to help Sri Lanka in line with the IMF policies …” However, finalizing the loan agreement will take another three months.

IMF Managing Director Kristalina Georgieva speaking to the BBC yesterday declared: “Governments need to subsidise the cost of food and energy for the poorest members of society and without the correct support, the protests seen in Sri Lanka could be repeated in other countries."

However, the IMF prescription for the bailout loan will deepen the attacks on the social rights and living standards of working people, pushing many more into poverty.

As part of its demands for "debt sustainability," the IMF has proposed among other things the privatisation of public enterprises; the reduction of public spending to curtail the budget deficit; and increased direct and indirect taxes to enhance the state revenue.

These measures will be translated into severe cuts to jobs, wages and pensions. Welfare programs will be slashed in the guise of providing targeted support for the most vulnerable.

Addressing the nation on May 16, Prime Minister Wickremesinghe warned of what was to come, saying: "The next couple of months will be the most difficult ones of our lives. We must prepare ourselves to make some sacrifices and face the challenges of this period."

He proposed the privatization of Sri Lankan Airlines and hinted at further privatizations, saying the government "can no longer bear the losses" of the Petroleum Corporation or Electricity Board.

The economic crisis in Sri Lanka has been fuelled by the global COVID-19 pandemic and compounded by the US-NATO proxy war in Ukraine against Russia. The increases in interest rates by the US Federal Reserve Bank and other central banks and sharply rising inflation are adding to the economic turmoil in Sri Lanka as in other countries.

In line with the IMF's demands, the Central Bank doubled the interest rates. Since early March, Sri Lanka's exchange rate has been allowed to float according to market forces leading to a devaluation of the rupee by about 80 percent.

According to the Central Bank annual report issued on April 30, Sri Lanka's real gross domestic product (GDP) growth for 2022 is projected to decline to 1 percent, downgraded from an earlier estimate of 5.5 percent. Per capita gross domestic product was $3,815 in 2021 and is expected to decline to $3,041 this year.

Within ruling circles there is no opposition to the IMF's austerity agenda. The opposition Samagi Jana Balawegaya has repeatedly criticized the government for failing to seek emergency finance from the IMF sooner. The Janatha Vimukthi Peramuna (JVP) has remained silent on the issue, but has not opposed the IMF negotiations or proposed any alternative.

The trade unions have sought to shut down any industrial action by the working class as soon as possible. Like the political establishment as a whole, the unions were terrified by the extent of support for the two general strikes. Over the past year, there have a series of major workers' struggles demanding higher wages and improved conditions.

Significantly, not a single trade union has publicly opposed the planned IMF austerity program and its far-reaching attacks on the living conditions of workers and the poor.

The Socialist Equality Party (SEP) is urging workers to build action committees, independent of the unions and capitalist parties, in factories, workplaces, plantations and working-class neighborhoods to fight for their social and democratic rights. This takes on an added urgency as the Rajapakse-Wickremesinghe regime prepares to steamroll the IMF austerity program.

The SEP calls for a repudiation of all foreign loans and a rejection of the IMF's demands. Workers should decide on the production and distribution of essential goods to ensure the pressing social needs of working people. The banks and major corporations must be nationalized under workers' control and the wealth of the super-rich expropriated.

The allies of Sri Lankan workers are their class brothers and sisters in India, South Asia and around the world who confront similar attacks, including in the US and the major imperialist centres where class struggles are already underway.

There is no solution for the immense social problems facing workers in Sri Lanka or internationally within the capitalist system. The formation of a network of action committees forms the basis for a fight for a workers' and peasants' government to implement socialist policies as part of the fight for socialism globally.

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