Sri Lankan central bank governor warns of unprecedented economic contraction in 2022

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Addressing the Sri Lanka Press Club on Monday, Central Bank Governor Nandalal Weerasinghe warned that the country's economy "will contract at the highest rate than any other year in history."

While Weerasinghe did not provide an exact figure, the Central Bank's annual report noted on April 30 that the estimated gross domestic product (GDP) growth rate for 2022 had dropped to 1 percent. The Central Bank governor's remarks indicate that growth will fall into the negative.

In 2020, Sri Lanka recorded a 3.6 percent negative growth rate, as the COVID-19 pandemic hit the country hard with the collapse of tourism, falling remittances and declining exports. In 2020, the poverty rate, calculated at $US3.20 per person, increased to 11.7 percent of the population, up from 9.7 percent in 2019, according to the World Bank. Another 500,000 more people fell into poverty.

Twenty-one years ago, in 2001, Sri Lanka recorded 1.2 percent negative growth, as a result of the devastation caused by Colombo's anti-Tamil communal war against the Liberation Tigers of Tamil Eelam that began in 1983.

This year's predicted unprecedented negative growth is the result of two factors: the deepening global economic crisis, and the impact of the harsh International Monetary Fund (IMF) policies being imposed on Sri Lanka. These entail restructuring the economy, including the public sector, sharp fiscal deficit cuts, privatisation and a market-driven flexible rupee exchange rate, which saw the currency free fall earlier this year.

Yesterday, Prime Minister Ranil Wickremesinghe was appointed finance minister, immediately declaring that a new "interim budget" would be announced in six weeks, and in line with the IMF's austerity measures. The interim budget, he said, "is just about cutting down expenditure, cutting to the bone where possible, and transferring it to welfare. For instance, the ministry of health, we just can't cut down its expenditure, and the ministry of education, it's a limited cut down, but there are many other ministries where we can cut."

The measures will include the slashing of infrastructure projects and other cuts that will shrink the economy with catastrophic consequences for jobs, wages and living conditions.

Explaining the deepening crisis, Central Bank Governor Weerasinghe told the Press Club that Sri Lanka could not pay for "normal imports for the next three to six months," despite industries reporting that they had "no raw materials."

Without dollars, the Central Bank has had to drastically curb imports, threatening the collapse of industries and huge job losses. Free trade zone investors have already warned about the plight of their investments.

The Joint Apparel Association Forum has previously reported that Sri Lanka's apparel sector was losing around 10 to 20 percent of its orders to neighbouring India and Bangladesh, with buyers voicing "concerns over the country's economic and political situation." Sri Lanka's apparel sector currently has orders only until June 2022.

Yesterday, the Sri Lanka United National Businesses Alliance warned about their increasing inability to pay wages.

"Nearly 4.5 million workers belonging to 4,500 small and medium enterprises will be in the streets protesting in the coming months over the non-payment of wages," the lobby group declared. It also complained that the Central Bank has told the business group that it could not grant extensions on loan repayments.

On Tuesday, the Sri Lanka Petroleum Corporation and Lanka-India Oil Company, with government approval, announced a record increase in fuel prices—petrol up by 24.3 percent and diesel by 38.4 percent. These increases are in line with IMF recommendations, which wants fuel subsidies slashed and prices determined solely by the market.

The latest fuel increases saw bus fares rise by 19.5 percent, port container transport charges up by 65 percent, three-wheel taxies fares by around 20 percent and other increases to come.

These rises will drastically worsen inflation. On Monday, the Department of Census and Statistics reported that the National Consumer Price Index jumped to 33.8 percent in April, up from 21.5 percent recorded in March 2022 on a year-on-year basis. Food inflation rose more steeply to 45.1 percent in April.

Hyperinflation has drastically increased the daily living costs to dire levels. The cost of rice, Sri Lanka's main food item, has risen by 100 percent in almost two months, making it unaffordable for many. The prices of most essential food items have increased by at least 50 percent since the beginning of the year with the cost bread nearly tripling.

Significantly, the Central Bank governor's speech noted that "the economic crisis has also spilled into a political crisis and social unrest," a reference to the mass protests and two general strikes over the two past months demanding the resignation of President Gotabhaya Rajapakse.

Referring to the governor's remarks about the sharp economic decline and rising social unrest, *Economy Next* drew similarities with the 1953 general strike and hartal (small business shutdown) in Sri Lanka. The mass industrial action and protests by the working class and rural poor was in response sharp cost of living increases, including the price of rice. While the Lanka Sama Samaja Party called the hartal, it limited the action to one-day and abandoned the continuing struggles.

Economy Next also referred to the revolutionary uprisings in Europe in 1848, describing it as a "Springtime of peoples, where monarchs were driven out and constitutional restraint established."

The February 1848 revolutionary uprising in France resulted in the overthrow of the monarchy, spread to Germany in March, and rapidly expanded across Europe. The feudal rulers of the German states were forced to accept parliaments and constitutions. References to these uprisings are yet another indication that Sri Lanka's ruling elite is acutely aware that the new IMF austerity measures will deepen the popular opposition and see a massive eruption of the working-class struggle that draws in the rural and urban poor.

Yesterday, Wickremesinghe declared: "Looking at the hard days ahead, there has to be protests. It's natural when people suffer, they must protest… But we want to ensure that it does not destabilise the political system."

President Rajapakse and Prime Minister Wickremesinghe will not hesitate to unleash brutal state repression. Although the state of emergency was allowed to lapse last week, Rajapakse ordered the military mobilised in 25 districts in the country and its territorial waters. Two anti-government demonstrations by the university students last week were viciously attacked by the police using teargas and water cannons.

Above all, the ruling elite and its government is utterly dependent on the trade unions to stop any destabilisation of "the political system." The unions are playing a politically criminal role, betraying one struggle after another since April. The general strikes in April and May were only called to dissipate the seething anger over price hikes and daily power cuts.

The trade unions are desperately seeking to tie workers to the opposition capitalist parties—who all support the IMF cuts—and their calls for an interim government to replace Rajapakse regime.

The unions have not uttered a word about the harsh austerity measures now being implemented by the Rajapakse-Wickremesinghe government. That is why it is urgent for the working class to take up the Socialist Equality Party's call for workers to form their own action committees, independent of the trade unions, and mobilise its industrial and political strength to fight for a workers' and peasants' government based on socialist policies.