IMF announces preliminary bailout loan agreement with Sri Lanka

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The International Monetary Fund (IMF) last Thursday announced that a preliminary staff-level agreement with the Sri Lankan government had been reached for a four-year arrangement to provide a $US2.9 billion loan facility, subject to the approval of the IMF executive board.

Hailing the IMF agreement as "the beginning of a new economic era," President Ranil Wickremesinghe declared: "The beginning will be difficult, but we know as we go on that we can make more progresses."

The so-called "new economic era" with its "difficult beginning" is nothing but a new round of savage austerity measures to make workers and poor pay for the country's unprecedented economic crisis.

The following far-reaching, harsh measures are among key elements of the IMF program:

* "Raising fiscal revenue to support fiscal consolidation." Major tax reforms have been proposed for this. While broadening income tax base for corporations, the IMF calls for making personal income tax "more progressive." This means broadening the tax net to include workers and low income earners. Further increase of value-added tax (VAT) that will inevitably hit the poorest layers of society is also proposed.

The target is to raise huge new revenues to ensure a fiscal surplus of 2.3 percent of gross domestic product (GDP) in 2025, from the estimated current deficit of 9.8 percent for this year.

Such a reversal from deficit to surplus in two years can only be achieved by a massive increase of taxes along with deep inroads into government spending on essential services, including health and education, and a major downsizing of the public sector through sweeping job destruction.

* "Introducing cost-recovery based pricing for fuel and electricity to minimize fiscal risks arising from state-owned enterprises (SOE)."

The IMF team "welcomed" the government's price increases already implemented. These have included huge massive fuel price hikes in recent months, an increase in electricity charges by 75 percent and water tariffs by 127 percent. Prices are to further increase in line with the world market. The privatisation of state owned enterprises is also part of the "reform" agenda.

* Mitigating the impact of the current crisis on the poor and vulnerable by raising social spending, and improving the coverage and targeting of social safety net programs.

This so-called mitigation is to be done at the expense of working people. Yesterday the government presented a social security bill to introduce a new tax of 2.3 percent to fund a social safety net for the vulnerable. In other words, amid a desperate social crisis affecting millions, a new tax has been imposed to provide a pittance for the very poor. "Targeting" means a further limiting of those who will receive any assistance.

* Restoring price stability through data-driven monetary policy action, fiscal consolidation. To implement these policies Central Bank should have autonomy.

In other words, the Central Bank is to function as the IMF's policeman in ruthlessly monitoring government policies, while adjusting interest rates and monetary policy in line with the demands of international finance capital.

* Market driven exchange rate policy should be implemented.

This will further devalue the Sri Lankan rupee which has already depreciated by 80 percent so far this year.

The remarks of IMF officials show that it came to a staff-level agreement as the Sri Lankan government began to rapidly implement austerity measures. The onslaught on the living conditions of working people has intensified since Wickremesinghe assumed the presidency on July 14. He presented the interim budget for the rest of the year last week, deepening the social attacks.

IMF senior mission chief for Sri Lanka, Peter Breuer, told the media in Colombo on Thursday that "the preliminary agreement is a signal from the Sri Lankan authorities they were committed to comprehensive reforms" and "assuring creditors that it will restore payment capacity…"

As part of this commitment, further harsh measures will be announced in the 2023 budget scheduled to be presented in November.

Sri Lanka "temporary defaulted" loan repayments to international creditors amounting to $51 billion on April 12. It now has to repay $7 billon as debt servicing this year.

The IMF will approve its first loan installment only if it is satisfied that the austerity measures are being implemented.

IMF official Masahiro Nozak warned that “a review will precede each set of payments.”

The Paris Club countries, mainly comprising the EU and India, welcomed the agreement. China also expressed its readiness to work with other countries to restructure Sri Lanka’s debt. Japanese Finance Minister Shunichi Suzuki on Friday called on countries that lent money to Sri Lanka to discuss the country’s debt restructuring.

Creditors could postpone repayment dates or make a small reduction to interest rates, but only to ensure loans are repaid in full. To repay these international finance sharks, the Colombo government will have to squeeze already suffering workers and poor.

In a statement on the IMF agreement, Prime Minister Dinesh Gunawardena declared: “For several decades, we have consumed much more than our savings. Hence, our debts have increased in a massive proportion… In the future, we will have to make major sacrifices in order to find the solutions to the factors that led to this debacle.”

It is not workers and the poor who are responsible for the country’s massive debts. It is the capitalist class and its successive regimes that obtained these loans to boost their profits and offset the impact of the worsening global capitalist crisis. Half of the borrowings were to prosecute the bloody anti-Tamil war that lasted nearly three decades and devastated the economy and whole areas of the island.

The Ceylon Chamber of Commerce, the country’s main big business lobby, issued a statement assuring its support for the IMF agenda. The corporate elite views it as the means for alleviating the immediate crisis and opening up new avenues to extract profits, including through the privatisation of state-owned enterprises.

The vote for the interim budget last Friday exposed the opposition parties and the sheer hypocrisy of their criticisms of the government. The budget was passed with 120 votes and only five opposing votes in the 225-seat parliament.

Thusara Indunil Amarasena, spokesman for the opposition Samagi Jana Balavegaya (SJB), declared: “As a party, we have decided to neither support nor oppose President Wickremesinghe’s budget and to abstain from voting instead.” He explained that was because the SJB did not want to jeopardise the talks with the IMF.

The Janatha Vimukthi Peramuna (JVP) voted against the budget, but none of its MPs spoke against the IMF’s austerity measures. In the budget debate, JVP leader Anura Kumara Dissanayake simply called for “a new government” with “a new mandate,”—in other words, a government better able impose the IMF’s demands.

Tamil National Alliance spokesman, M. A. Sumanthiran, far from disagreeing with the IMF program, told the government: “The budget needs to be consistent with the IMF economic reform program and macroeconomic framework.”

Expressing the fears in international finance circles about the social explosive situation in Sri Lanka, Fitch Rating warned: “Political instability will pose risks to the implementation of reforms… Additional social spending may not be sufficient to prevent public opposition, particularly given that the government’s public support appears weak…”

Since last April, Sri Lanka has been engulfed in protests and strikes involving millions of workers and poor. They demanded the resignation of former President Gotabhaya Rajapakse and his government and also demanded an end to rampant inflation, shortages of essentials and long hours of power cuts. Amid huge protests, Rajapakse fled the country.

That mass movement was betrayed, however, by the trade unions, backed by pseudo left Frontline Socialist Party, which did everything to limit its scope and to shackle it to the demand for an interim all-party capitalist government. The result is the Wickremesinghe government which is implementing the even more severe burdens on working people—all with the support of the opposition parties.

The ruling class in Sri Lanka and international representatives of finance capital are well aware of the anger again brewing among the broad masses. Since coming to power, Wickremesinghe has intensified the police and military repression against anti-government protesters. Hundreds have been arrested. After brutal police attacks on protesting students, Wickremesinghe sent three student leaders to detention camps using the draconian Prevention of Terrorism Act.

The working class must prepare its own counter-offensive against this austerity drive using its own class methods and rallying the rural poor. Socialist Equality Party (SEP) calls upon the workers and the rural masses to build their own action committees in work places and neighbourhoods, independent of capitalist parties and trade unions, to fight for their social and democratic rights.

The SEP is campaigning for a Democratic and Socialist Congress of Workers and Rural Masses based on elected representatives from these action committees. The mobilisation of workers and the rural poor in this struggle will pave the way for a political fight for a workers’ and peasants’ government to implement socialist policies.