

Economic devastation worsens as Sri Lankan government imposes IMF austerity

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The disastrous situation facing the working class and toiling masses in Sri Lanka is worsening as the Wickremesinghe government continues to impose the austerity agenda of the International Monetary Fund (IMF). Implementation of these measures is the precondition for a \$US2.9 billion IMF bailout loan to pay the country's defaulted debts to international finance capital.

Addressing parliament on March 7, President Ranil Wickremesinghe boasted that the government had fulfilled all IMF preconditions and expected to receive the Executive Board's approval for the loan in the third or fourth week of March. He warned that, unlike the 16 previous occasions Sri Lanka had implemented IMF programs, the government could not sidestep the IMF's directives. It was a clear threat to the working class that the government is determined to crush all popular opposition to its social assault.

The government expects the IMF bailout loan to be delivered over a four-year period. State Finance Minister Shehan Simesinghe announced that the government expects to secure \$7 billion from financial institutions and bilateral lenders following approval of the IMF loan. Sri Lanka's sovereign debt default last April prevented the government negotiating bilateral, multilateral and commercial loans.

Wickremesinghe told parliament that the IMF's conditions included Central Bank "independence," public enterprises "reform," increasing public revenue and "controlling" public expenditure.

His reference to Central Bank "independence," means that the bank should work as a direct agency of the IMF and continue raising interest rates independently of the Colombo government.

On March 12, Central Bank Governor Nandalal Weerasinghe warned that IMF austerity will be prolonged. "Sri Lanka was now transitioning to a new economic model, breaking away from the previous unsustainable model," he said, adding: "However, this is not the end of the story. A lot of people think that things will be going back to normal. No, this is the start of a new journey."

In line with the IMF conditions, the government has put

exorbitant tax increases on working people while hiking the cost of electricity, fuel and cooking gas, and cutting subsidies, including for fertilisers. While pauperising working people, government is to offer a meagre "social safety net," but only to the poorest of the poor.

Inflation is still over 50 percent as the Central Bank maintains high interest rates and allows the rupee to reflect market exchange rates. These measures have paved the way for a serious contraction of the economy, destroying jobs and the real value of workers' wages. Imports of essentials, including pharmaceuticals have been curtailed, with foreign currency reserves used to pay foreign debts.

These measures have devastated the living conditions of workers and rural toilers.

A recent seminar organised by the US Soya Bean Export Council in Dubai reported that 59 percent of all families in Sri Lanka were unable to meet the required level of food due to the declining food production and inflation in 2022. Around 28 percent, or 6.3 million people, were facing a serious scarcity of food.

Last month, the Sri Lankan Medical Association warned that the country's health sector is heading towards a "total breakdown," because it lacked essential medicines and equipment.

Rural farmers confront disaster with the high cost of all inputs, including fertilisers and pesticides, and meagre prices—set by the government for the benefit of big business—for their produce.

Most small- and micro-businesses, including self-employed workers, have been swept away by rising interest rates, the scarcity of inputs and skyrocketing costs.

Early this month, the Sri Lanka United National Businesses Alliance warned that unless interest rates were reduced the country's "consumer market will shrink by 60 percent by April." In March, the Sri Lankan Central Bank, with IMF backing, raised the interest rates by 100 basis points.

According to one study, the incomes of working people must increase by 160 percent to maintain the level of

consumption that prevailed in 2015. In other words, the living standards of workers and their families have shrunk by 61 percent compared to 2015 levels.

According to recent figures, the overall economy shrank by close to 8 percent last year with this year's contraction estimated to be 3 percent.

Interest rate hikes by the US Federal Reserve and other major central banks, the surging value of the US dollar, exorbitant import levies and other indirect taxes on essentials, have contributed to Sri Lanka's economic contraction and ensured its spiralling inflation rates continue.

Contraction has seen a decline in demand for foreign currency and a recent marginal appreciation of the rupee against the US dollar. This was immediately seized on by the government as an indication of "economic recovery" and that its brutal austerity program was the "right path."

Fitch Ratings, however, emphasised that the slight appreciation of the rupee was temporary. "The Sri Lankan rupee may also be pressured by tightening global monetary conditions," Fitch said. It predicted that the currency would plummet by 20 percent by the end of the year.

Colombo plans even harsher social measures. These include cutting the public sector wage and pension bill, and the commercialisation and privatisation of state-owned enterprises. The government has already frozen public sector recruitment, reduced the retirement age, introduced voluntary retirement schemes, and permitted public sector workers to take extended unpaid leave to work abroad or in the private sector.

According to Cabinet Spokesman and Minister of Media, Transport and Highways, Dr Bandula Gunawardena, Sri Lanka will have to pay \$2.6 billion of its foreign debt to multilateral lenders in the first six months of 2023.

Wickremesinghe has said that Sri Lanka will have to repay an average of \$6 to \$7 billion in foreign loan debts annually until 2029. This makes clear that the harsh social attacks on the working masses are being imposed by a regime that functions as a direct agent of global finance capital.

The main opposition parties—Samagi Jana Balavegaya (SJB), Janatha Vimukthi Peramuna (JVP) and the Tamil National Alliance (TNA)—demagogically criticise the government. Their denunciations are bogus and aimed at exploiting, and politically containing, the rising mass opposition.

Beginning late last year, the working class has come into struggle against government. On March 15, about half a million workers—public and private sectors from across the country—joined strikes and protests in opposition to the government's austerity and in defiance of anti-strike essential service orders. This growing movement is part of a

rising struggle of the international working class, as seen in France, the UK and the US.

While the trade unions have been forced to call strikes and protests, these are limited to one-day events. Like the opposition parliamentary parties, they have no fundamental differences with the IMF's dictates and are attempting to chain workers to the electoral agenda of the opposition parliamentary parties.

The government, opposition parties and the trade unions all fear rising working-class anger could lead to the sort of movement that last year ousted Gotabhaya Rajapakse as president. Having drawn lessons from last year's mass uprising against Rajapakse, Wickremesinghe is using the state apparatus—the police and military and draconian laws, including essential service orders—against demonstrations and strikes.

The working class needs its own strategy to counter this capitalist onslaught. For this, workers need to take the struggle for their social and democratic rights into their own hands. This can only be done through the formation of their own action committees, independent of all capitalist parties and trade unions, in every workplace, factory, plantation and neighbourhood and among the rural poor.

The Socialist Equality Party (SEP) calls for a Democratic and Socialist Congress of Workers and Rural Masses comprised of democratically elected representatives from the action committees of workers and rural toilers throughout the country. The aim of this Congress is to take forward the fight for a government of workers and peasants committed to socialist policies. This will be part of a broader struggle for socialism in South Asia and internationally which needs the unity of Sri Lankan working class with their class brothers and sisters in the region and globally. We urge workers and youth to take up the fight for this perspective.



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