Sri Lankan government to slash billions from workers' pension funds

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On Saturday, the Sri Lanka parliament approved the domestic debt restructuring/optimization (DDR) plan presented by President Ranil Wickremesinghe, who is also finance minister. The plan will slash billions of rupees from the pension funds of millions of workers, mainly the Employee Provident Fund (EPF). This devastating blow is part of the International Monetary Fund-dictated austerity program now being ruthlessly implemented by the government.

According to the proposed DDR, Treasury is retrieving all existing bonds in which superannuation funds such as the EPF have invested and issuing new bonds in which it calls a step-down process. The new bonds will receive 12 percent interest until 2025 and thereafter the much lower rate of 9 percent will be paid until 2038.

In this manner, pension funds will not receive much higher prevailing interest rates. For instance, in recent years, the interest rates on government treasury bonds surpassed 30 percent.

Wickremesinghe issued an extraordinary gazette yesterday, empowering the secretary to the finance ministry to convert or exchange any stock or securities issued in Sri Lanka, as of June 28, 2023.

According to independent think tank, Verite Research, even based on the prevailing average interest rate, conservatively calculated as 13 percent, the EPF will lose a staggering 12 trillion rupees ($US39 billion) by 2038.

The EPF is mainly managed by the Central Bank and 95 percent of its 3.5 trillion rupees ($US11 billion) is invested in government securities in the form of treasury bonds. The government's total domestic debt amounts to around 15 trillion rupees, thus the pension funds hold almost 25 percent of domestic debt.

Under the agreement with the International Monetary Fund (IMF) to obtain $US3 billion loan, approved in March, the government pledged to reduce its debt from 125 percent of GDP to 95 percent of GDP in 2032. The DDR plan is a crucial part of achieving this target.

The government was desperate to implement the DDR prior to the next IMF review scheduled for September in order to obtain the next loan tranche. Last week, President Ranil Wickremesinghe told the media: "So, before we can get to the next tranche from the IMF, it's a question of us now mapping the road out."

The majority of private sector and state-owned enterprises deposit their employer and employee pension shares in the EPF as a statutory requirement.

The workers are eligible for payouts from the fund only after retirement beyond the age of 55 years. Until then, the EPF's custodian is the Central Bank. So this captive pension fund is being manipulated by the government, behind the back of its 2.6 million workers.

The pension fund is the only hope of workers to settle their loans, mortgages, other financial commitments and if possible build a house for the family after their retirement. Some deposit their retirement earning in banks to obtain a meagre income on which to live for the rest of their lives.

As dictated by the IMF, the government has adopted a policy of currency depreciation. Hyper-inflation shot up last year to more than 70 percent but has since dropped to 12 percent. Inflation and currency depreciation have sharply affected the real value of EPF deposits. According to estimates, the US dollar value of the fund fell from $15.8 billion in 2021 to $9.5 billion in 2022.

Wickremesinghe also announced slashing the state contribution for government employees' pensions in his budget speech. Previously the government was committed to paying a full pension for their employees, but starting this year all new recruits must put 15 percent of their income into their pension.

While targeting workers, the government has excluded the commercial banks from the DDR, claiming they have been overburdened. Central Bank governor Nandalal Weerasinghe said: "[B]banks have already made a huge contribution to the Treasury in terms of 50 percent taxation and their contribution to the economy in terms of debt moratoriums, and state loan provisioning…”

It’s not a surprise that the government excluded the DDR impact from the shareholders of banking capital. The after-tax profits of the banking industry were over 172 billion and 150 billion rupees in 2021 and 2022 respectively.

Big business was jubilant that banks were excluded and the DDR plan targeted workers’ pension funds. Ceylon Chamber of Commerce chairman Vish Govindasamy thanked the government at a meeting convened by Wickremesinghe on June 29, saying: “I think this [DDR]is probably the best thing that could have happened…”

Yesterday, the Colombo stock market shot up by 7 percent, indicating the enthusiasm of the capitalist class for the government’s action.

Colombo is under pressure from major international lenders to implement domestic debt restructuring before they take measures to restructure their loans. To date, foreign creditors have not agreed to reduce loan repayments or lengthen the period for repayments. Their preoccupation is to ensure defaulted loans are repaid in full by making workers and the poor bear the full burden of the country’s unprecedented economic crisis.

The main opposition party, the Samagi Jana Balawegaya (SJB), voted against the bill, shedding a few crocodile tears over the impact on workers. Its financial spokesman, Harsha de Silva, backed the cuts to the EPF while mildly criticizing it as a “potential opportunity loss” for the fund.

The SJB has been an ardent supporter of the IMF austerity program, condemning the government for not approaching the IMF much earlier. Significantly, four SJB MPs broke ranks and voted for the DDR plan.

The opposition Janatha Vimukthi Peramuna (JVP) also voted against the DDR motion. Its speaker demagogically declared that those voting for the plan should “apologize to the country’s workforce” for endangering the EPF. The party has made clear that it sees no alternative to the IMF demands and will impose harsh austerity measures if it forms government.

The trade unions have largely kept silent. The Ceylon Bank Employees Union issued a statement calling on bank depositors not to panic and withdraw their deposits. Its concern was to prevent banks being destabilized, not the devastating impact on workers.

The Free Trade Zone and General Service Union sent a letter begging the Governor of the Central Bank to act on behalf of workers’ benefits and not to take “any steps to affect EPF and other superannuation funds…”

JVP-controlled All Ceylon General Port Employees Union and All Ceylon Telecom Workers Union leaders issued a leaflet declaring “Let us organise to defend EPF and ETF pension funds! Let us fight and show our strength!” However, no action has been proposed.

These trade unions overtly or covertly support the IMF program and oppose any mobilisation of the working class against the savage austerity measures that have already devastated the lives of millions of workers and the poor.

The defence of superannuation funds is bound up with workers organising independently of all the bourgeois parties and trade unions, which represent the ruling class interests. Socialist Equality Party (SEP) calls on workers and rural poor to build independent rank-and-file action committees in workplaces, factories, plantations and among the rural masses.

A political struggle against the IMF’s austerity demands must be based on a socialist program. We call for the repudiation of all foreign debt, the seizure of the wealth of the super-rich and the nationalization of banks and major corporations, including the plantations, under the democratic control of the working class.

The SEP is campaigning to build a Democratic and Socialist Congress of Workers and Rural Masses, based on delegates elected by action committees, to develop a political movement of the working class and rural poor to establish a workers’ and peasants’ government to implement socialist policies. This is an integral part of the fight for socialism internationally.

We urge Sri Lankan workers and youth to participate in the public meeting organized by the SEP on July 6 at 4 p.m. at the public library auditorium in Colombo to discuss and take forward this program.