IMF withholds second installment of bailout loan to Sri Lanka

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9 October 2023

International Monetary Fund (IMF) officials announced in Colombo late last month that they have been unable to reach a staff-level agreement with the Sri Lankan government and will not be releasing a scheduled second installment of its $US3 billion bailout loan.

The decision followed a review of the government's implementation of the IMF's austerity measures. The first installment of the bailout was paid in March.

Senior IMF mission chief for Sri Lanka Peter Breuer told a September 27 press conference that the Wickremesinghe government had not fulfilled the six-monthly targets set in March, and that further discussion would be held with the bank's Executive Board.

Revenue mobilisation, Breuer said, is "expected to fall short of initial projections by nearly 15 percent by year end." Government expenditures were around 19 percent of gross domestic product (GDP), he reported, but that revenue was only 9 percent. "That gap needs to be filled," he added, saying revenue mobilisation needed to be hiked to 12 percent of GDP next year—i.e., a 3 percent increase in current revenue.

"[F]rom the IMF's perspective what matters to us is that debt targets are achieved," he said. Sri Lanka must build up its foreign reserves stock and prove "debt sustainability," he stated, and called for a continuation of the "economic reform momentum."

In plain language, President Wickremesinghe's regime is being ordered to further squeeze the working class and poor to repay the outstanding foreign debts after the former government of President Gotabhaya Rajapakse defaulted on loans in April last year. This means even more brutal increases in taxes and the cost of essentials and basic services, like water and electricity, and a speed up in public sector job destruction through the privatisation and commercialisation of state-owned corporations.

Breuer patronisingly declared that the "people of Sri Lanka have shown remarkable resilience in the face of enormous challenges." Now further unbearable attacks on living conditions, jobs and pension cuts will increase the burdens. Last year 25 percent of the population was deemed to be living in poverty. This year the figure has climbed to 28 percent.

Sri Lankan workers and the poor are not passively accepting the government's attacks. Rising popular anger has compelled the trade unions to call limited protests and strikes. Opposed to united working-class action against the government, the union bureaucracies have isolated and betrayed these actions, allowing Colombo to implement austerity measures.

The past months have revealed the determination of international creditors to extract full repayment of Sri Lankan debts. European imperialist powers and other countries organised in the Paris Club, have previously said they were ready to provide concessions to Sri Lanka and reduce its repayment burden. While India is not a member of the Paris Club, it has observer status.

No concessions have been announced, however. Instead, Paris Club members are urging China to line up and assist with the Sri Lanka debt even as they publicly accuse Beijing of creating "debt traps" to politically influence Sri Lanka and other indebted countries. Beijing, however, has refused to join the Paris Club and rejected the debt trap allegations, insisting that it will have separate discussions with Colombo.

The Wickremesinghe government and the Sri Lankan ruling class, now faced with the IMF's delayed loan installment, are in a desperate situation. Addressing the October 3, Berlin Global Dialogue meeting, President Wickremesinghe said he was walking on a tightrope. "There's a point beyond which you can't burden these people. Now we are going beyond that point," he declared.

Wickremesinghe's concerns about burdening the people, are bogus. Government officials are intensifying their social onslaught but are fearful that there will be a social explosion.

Treasury Secretary Mahinda Siriwardena told Reuters on October 4: "It is imperative that historically high budget deficits be reduced through better tax collection and improvement in tax administration… [in order] to recover from the financial crisis." This requires the privatisation or commercialisation of “loss-making state-run enterprises” to reduce the financial burden on the Treasury, he said.

On October 5, Director General of the State Enterprise Restructuring Unit Suresh Shah, said there were 80 state commercial entities that should not be state owned, making clear that they will be privatised. He also indicated that 15 “non-operational” entities will be shut down.

Last week, the government liquidated the Cooperative Wholesale Establishment (CWE) destroying nearly 300 jobs. Authorities have also announced closure of the State Engineering Corporation, with the retrenchment of 1,400 employees while paying only meagre compensation.

At the same time, Wickremesinghe is preparing dictatorial measures to take on the working class. His regime has already presented its draconian Online Safety and Anti-Terrorism bills which will give him unprecedented repressive powers. Wickremesinghe is also continuously expanding the Essential Public Service Act to ban strikes in the health, petroleum, electricity sectors, as well as in ports and transport services, including bus, rail and air travel.

Parliamentary opposition leader and Samagi Jana Balawegaya (SJB) chief Sajith Premadasa and several other MPs met with IMF officials in Colombo on September 25. Premadasa later told the media that the IMF “agreement would be reviewed, and a more people-friendly agreement reached” under a future SJB government.

These claims are false. Even before former President Gotabhaya Rajapakse announced that he would seek IMF assistance in April last year, Premadasa was furiously denouncing him for not turning to the IMF earlier.

Janatha Vimukthi Permuna (JVP) spokesman and former MP Nalinda Jayatissa told the media on September 26, while IMF officials were in Sri Lanka, that his party would “deal with the IMF while respecting the people’s mandate” if it became part of a future government.

Phrases such as “people-friendly” and “respecting people’s mandate” from the SJB and the JVP, are empty phrases designed to deceive the masses. The SJB, formed in a split from Wickremesinghe’s United National Party, and the JVP, will implement IMF austerity no less ruthlessly than the current regime.

Leaders of the Professionals Trade Union Alliance, a combine of 47 professional associations, also met with IMF officials in Colombo on September 25. It was the fourth meeting of these bureaucrats with the IMF since it concluded an agreement with the Wickremesinghe government in March.

The union alliance includes the Government Medical Officers Association and Federation of University Teachers Associations. They have called on the government to reduce the massive income tax now imposed on their members and many other employees. The IMF officials bluntly told the union officials that they should seek a solution from the government.

Other sections of the union apparatus are still promoting illusions that more protests will compel the government to modify its severe austerity measures. On September 6, over 30 port trade unions, including the JVP-controlled All Ceylon Port General Workers Union and a Sri Lanka Freedom Party-affiliated trade union, presented a petition signed by 5,000 port employees calling on Wickremesinghe not to tax pension funds. Predictably their appeal fell on deaf ears.

Workers need to reject the hypocritical and impotent union appeals to the government and take matters into their hands. For that workers need to independently organise action committees in all factories, plantations, neighborhoods, and also among rural peasants, to fight the government’s deepening social assault.

A campaign must be developed through these action committees around demands directly related to the basic social and democratic rights of workers and rural poor. This should include the abolition of the executive presidency, the repeal of all repressive laws, the rejection of all IMF demands and the defence of all jobs with a living wage for all.

All foreign debts must be repudiated, and the major banks, big corporations and other economic nerve centres should be nationalised and placed under workers’ control. Free health and education must be ensured for all, and all debts of poor peasants cancelled.

An independent political movement of the working class, rallying rural poor, on those demands must be developed to overthrow the Wickremesinghe government and establishment of a government of workers and peasants committed to socialist policies. This will be a part of broader struggle for socialism in South Asia and internationally.