Sri Lankan government agrees with IMF to implement savage austerity measures

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The International Monetary Fund (IMF) announced on Saturday that it had reached a staff-level agreement under Sri Lanka's $US3 billion bailout loan program with the new Janatha Vimukthi Peramuna (JVP)/National Peoples Power (NPP) government and thanked it for its "excellent collaboration."

The agreement was announced just two days after President Anura Dissanayake stated in his policy address to parliament on Thursday that the government was committed to implement the IMF demands in full, ditching his previous promise to "renegotiate" the terms.

Dissanayake told parliament that "due to the scale of the crisis" in Sri Lanka "even the smallest error could have significant repercussions… There is no room for mistakes."

The IMF team led by Peter Breuer, Senior Mission Chief for Sri Lanka, held discussions with the president, ministers and senior state officials over the week from November 17.

After declaring the new government's mandate would reinvigorate reforms and rebuild business confidence, Breuer added: "Regrettably, challenges in Sri Lanka haven't gotten less despite the change in the government" and it had to proceed with the austerity measures.

Having agreed to the IMF's punishing terms, Sri Lanka will have access to about $333 million in financing "subject to the approval by IMF management and the IMF Executive Board." IMF approval will be contingent on "submission of a 2025 budget consistent with program objectives" and "adequate progress" being made on debt restructuring.

Dissanayake, who is also the finance minister, has announced that next year's budget will be presented to the parliament in February with approval projected for March.

The IMF is demanding that the 2025 budget achieve a primary surplus of 2.3 percent of GDP—that is, four times of last year's surplus of 0.6 percent. To achieve this, the government will have to make even deeper inroads into the social position of working people.

According to a "pre-election budgetary position report" released by Dissanayake, the government has amassed revenues that have already risen by 41 percent in the first eight months of this year—reaching 2,557 billion rupees ($US8.7 billion) compared to the same period last year. The increase is far greater tax collection, up by 41 percent and totaling 2,348 billion rupees, mainly being shouldered by workers and the poor.

Other key proposals include further tax hikes on workers, deepening cuts to health and education spending, and the comprehensive restructuring and privatization of state-owned enterprises (SOEs), potentially resulting in the loss of at least 500,000 public sector jobs. The public sector currently employs 1.4 million people.

All of this is being done in the name of establishing "debt sustainability"—that is, creating conditions to resume loan repayments after the previous Gotabhaya Rajapakse government defaulted in April 2022. From 2028, the Sri Lankan government must resume the payment of $5 billion annually to the international loan sharks.

In his inaugural speech to the parliament, Dissanayake made clear that his government had rapidly caved in to IMF demands on debt restructuring. The discussions, he said, were in the final stages and his government would reach a common understanding regarding bilateral debt without "debating" whether the plan was "good or bad"—effectively junking his criticisms of the previous President Ranil Wickremesinghe government.

Other election promises, including to reduce pay as you earn (PAYE) tax and electricity rates, have also been jettisoned. The IMF made clear neither will take place, saying the government had to avoid “new tax exemptions” and ensure “cost recovery in fuel and electricity pricing and resolving legacy debts” to maintain its fiscal position.

Dissanayake has already halted an inadequate wage increase announced by the former Wickremesinghe government for public sector employees, which was to take effect in January 2025.

In the run-up to the parliamentary election, Dissanayake promised relief from high Advance Personal Income Taxes for lower-income earners and to remove the Value Added Tax (VAT) on certain essential goods and services. All this has been proven to be lies.

Even for the government to provide meagre ‘Aswesuma’ allowances for the extreme poor, the IMF has demanded it “redouble the effort” to meet fiscal targets, meaning greater revenue from workers through taxes and other means.

The impact of the austerity measures imposed have already been drastic. More than quarter of the population live in poverty while malnutrition among of children is in the world’s highest bracket. Over 60 percent of the population have had to alter their food intake as a result of reduced real wages and incomes.

A World Bank update on Sri Lanka released on October 10 stated that “food insecurity remains high, and poverty has nearly doubled” in 2024 and is forecast to persist until 2026.

The IMF statement vaguely stated on the importance for Sri Lanka of “rebuilding external buffers through strong reserves accumulation” against “ongoing global uncertainty.” In reality, the economic crisis in Sri Lanka was simply an acute expression of the global crisis of capitalism fuelled by the COVID-19 pandemic and US-led wars in Ukraine against Russia and in the Middle East.

Far from improving, the global crisis is only worsening, meaning that countries like Sri Lanka will only face an endless series of demands for austerity. In her report in October, IMF managing director Kristian Georgieva pointed to “an unforgiving combination of low growth and high debt—a difficult future” internationally.

As indicated in his parliamentary address last week, President Dissanayake will use the government’s two-third majority to steamroller the IMF harsh measures through parliament, overriding any constitutional and legal restraints.

The president is also well aware, however, that implementing the IMF’s demands will provoke widespread opposition from working people, many of whom voted for the JVP/NPP believing it would improve their lot, not make it worse. The government will not hesitate to resort to use police state measures against protests and strikes.

The working class needs to prepare both politically and organizationally to confront the Dissanayake government’s attacks on their social and democratic rights.

The Socialist Equality Party (SEP) calls on workers to establish their own action committees in every factory, workplace, plantation, and neighborhood, independent of all bourgeois parties and trade union bureaucracies. Similar committees should be set up by the rural poor in their communities.

The SEP is campaigning for a Democratic and Socialist Congress of Workers and Rural Masses, consisting of democratically-elected delegates from these action committees as the means to formulate and implement a strategy to defend the interests of working people.

We call on workers to take up the struggle to repudiate foreign debt and nationalize the banks and major corporations in order to build an independent political movement of the working class, united with the rural poor, for a government of workers and peasants committed to socialist policies.

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