Sri Lankan government prepares next IMF-dictated budget

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12 October 2025

Sri Lankan President and Finance Minister Anura Kumara Dissanayake is currently preparing his government's 2026 budget, which will be presented to parliament on November 7. Last week, a visiting International Monetary Fund (IMF) team declared in no uncertain terms that Sri Lanka's next budget had to be fully in accord with the bank's austerity demands.

The IMF officials were in Colombo from September 24 to October 9 to review whether the government had met its past targets and how the new budget proposals were being prepared.

Addressing the media on October 9, IMF mission chief Evan Papageorgiou said: "The IMF will monitor both the size and quality of government spending."

Papageorgiou warned that although the IMF had reached a staff-level agreement to release $US347 million, the fifth instalment of its $3 billion bailout loan, IMF Executive Board approval of the tranche was "contingent" on parliament's passage of the 2026 budget.

Next year's budget, he added, had to be "in line with program parameters and the completion of the financing assurances review, to confirm multilateral partners' financing contributions and assess adequate progress with debt restructuring."

These "parameters" include slashing the fiscal deficit to show a primary account surplus of 2.3 percent of GDP and ensure that the repayment of foreign debts, which the country defaulted on in 2022, would start in 2028. In 2021, Sri Lanka's deficit was 6 percent of its GDP.

The IMF staff review called on the government to introduce measures to "improve tax compliance, broaden the tax base… and ensure efficient public expenditure."

In practice, this means extracting more revenue from the working people through new tax increases, slashing state subsidies, "restructuring" or privatising about 400 state owned enterprises (SOE) and imposing other austerity measures.

An official report informed a parliamentary committee last week that Sri Lanka must begin repaying $37 billion in foreign loans, starting in 2028, with annual repayments of $4 billion over the following decade.

During last year's presidential and general elections, Dissanayake and his Janatha Vimukthi Peramuna/National People's Power (JVP/NPP) falsely promised voters that they would ease the previous government's austerity measures. Dissanayake quickly dropped these pledges after being elected.

Meeting with the IMF delegation on October 7, Dissanayake said his government regards "IMF support, not merely as external assistance but as an integral element of its comprehensive strategy."

The IMF, he added, was a "key strategic partner in Sri Lanka's ongoing journey toward financial stability and economic resilience" and it was "imperative for Sri Lanka to exceed the targets set by the IMF." This means even more ruthless social assaults.

A key aspect of the IMF's cost-cutting program is the dismantling of the public sector and the destruction of thousands of jobs. IMF mission chief Papageorgiou stressed that the SOE "reforms" were needed to "contain systemic fiscal risks."

The brutal character of this agenda is seen in the ongoing restructure of the Ceylon Electricity Board (CEB), which employs around 22,000 workers. It is being broken into four companies, with plans to list their shares on the Colombo Stock Exchange.

Papageorgiou said these measures were necessary to ensure that "the electricity company operates on commercial grounds, much like any private company would, and makes sound and operationally good financial decisions."

Energy sector reform and cost-recovery pricing are paramount to ensuring fiscal discipline, he added. In other words, higher electricity tariffs. Under pressure from the IMF, the government is expected to lift the cost of electricity by 7 percent in coming days.

Papageorgiou's statements are an indirect threat against CEB employees who have taken industrial action since September 4 to demand assurances of continuity of their jobs, wage levels, pension funds and other rights under the new companies.

On September 21, Dissanayake imposed Essential Services Regulations banning all industrial action by CEB employees. These draconian laws carry heavy penalties, including jail, for workers who do not comply.

Last month the government decided to liquidate 33 "non-functional and financially unsustainable" SOEs, including Mihin Lanka, Lanka Cement PLC and Magampura Ports Management Company. These liquidations are being justified under the guise of "improving fiscal discipline" and "eliminating wastage." Thousands of workers from these institutions will be laid off and paid meagre compensation.

The World Bank has also called for the downsizing of Sri Lanka's public sector. Its Sri Lanka Public Finance Review 2025 has said the country's public-sector workforce of 1.21 million should be "rightsized," stressing that the government must "trim its bloated public sector via well-targeted attrition policies."

While Dissanayake's claims that the IMF is a "strategic partner" of Sri Lanka for "financial stability and economic resilience" will be music to the ears of big business and international investors, it will bring further misery for workers and the poor.

Current IMF austerity measures have already devastated the living standards of working people. The World Bank reports that 22 percent of the population now live below the poverty line of 16,397 rupees ($54) per month with another 10 percent hovering just above this figure. More than 55 percent of the population struggles with food insecurity.

Notwithstanding Dissanayake's demagogic claims of economic recovery—on August 7, he told parliament that the country would exceed its revenue target of 4.5 trillion rupees this year—Sri Lanka, like every other country, confronts a deepening international economic crisis and trade war.

The Asian Development Bank (ADB) reported on September 30 that US President Trump's 20 percent tariffs on Sri Lanka have begun to "bite" into exports. It estimated that the overall effective average tariff rate increase on the island is 17.4 percent—the highest since the Great Depression of the 1930s—potentially causing $634 million in export losses and threatening 16,000 jobs, mainly among female apparel workers.

The parliamentary opposition parties have kept their mouths shut about the latest IMF talks. Their unwavering support for the harsh attacks on public sector workers was seen in their unanimous approval of the Essential Services Regulation in parliament on September 25.

Likewise, the CEB trade union bureaucracies, and their union counterparts in other public sector workplaces and institutions, fully support the IMF's demands and are conspicuously silent about Dissanayake's use of the repressive Essential Services Regulation.

The only way the working class can defeat Dissanayake's IMF-dictated assault on jobs, wages, and working conditions is by breaking from every faction of the capitalist class and fighting for a socialist program that repudiates all foreign loans and nationalises all the major companies, banks, and plantations, placing them under workers' democratic control.

This requires the building of action committees in every workplace and among the rural masses to lay the foundations for a democratic and socialist congress to develop the program and strategy to bring a workers' and peasants' government to power as part of the fight for international socialism.