

Sri Lanka receives further IMF loan installments and demands for escalating austerity

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On May 27, the International Monetary Fund (IMF) Executive Board released two loan installments to Sri Lanka amounting to \$US695 million, bringing total IMF disbursements to about \$2.4 billion.

The IMF's approval of the combined fifth and sixth reviews of Sri Lanka's Extended Fund Facility (EEF) bailout program was immediately hailed by the Colombo political establishment, big business lobbies and the corporate media as proof of the success of the government's economic policies. These policies are nothing but the continued implementation of ruthless attacks on the living and social conditions of workers and the poor masses.

To secure the new funds, President Anura Kumara Dissanayake, as finance minister, and Central Bank Governor Dr. Nandalal Weerasinghe sent a Letter of Intent on May 13 to the IMF Executive Board, assuring it of the government's commitment to maintaining fiscal discipline and rolling back temporary relief measures.

The letter promised that all energy subsidies and relief measures introduced in response to recent shocks—Cyclone Ditwah and the US-Israeli war against Iran—would be capped and phased out by September. Dissanayake stressed that any additional social assistance would be conditional on meeting IMF fiscal targets.

The IMF's release of funds is tied to demands for escalating austerity and structural reforms that represent a deepening of the attacks on workers and the rural poor.

These include:

- Continuing “cost-recovery pricing” for fuel and electricity.
- Monetary policy remaining focused on maintaining price stability. The IMF stated that “greater exchange rate flexibility” and structural reforms were needed to “improve the investment climate and lift the growth potential.”
- Broadening “the tax base,” not excluding higher taxes for vehicles, income tax or VAT. The IMF has previously proposed property taxes, including taxes on residential

housing, which would impact a wide layer of the population.

The IMF repeatedly stressed that the continuation of its program depends on “cost-recovery” pricing, revenue mobilisation, electricity-sector restructuring, public financial management reforms and measures to improve the “investment climate.”

The loan approval comes amid mounting global instability. The IMF warned that the US-Israeli war against Iran and the wider Middle East conflict have “significantly worsened Sri Lanka's economic outlook and tilted risks to the downside.”

It warned that Sri Lanka's economic growth rate will be 3 percent this year, sharply down from 5 percent in 2025. Inflation is expected to rise significantly to 6.1 percent by the end of the year, up from 2.1 percent last year. Sri Lanka's Central Bank Governor told the media that the inflation rate could go as high as 7 percent.

According to the IMF, higher oil prices, weaker tourism earnings and external pressures are already undermining the country's fragile recovery. The Middle East is critically important to Sri Lanka's economy, supplying a large share of the island's petroleum imports, accounting for more than half of remittance earnings from overseas workers and serving as a major transit hub for international air travel to and from the country.

Fuel prices have increased by nearly 50 percent since the US launched its war of aggression against Iran on February 28. Prices increased four times during this period alone, based on the “cost-reflective price” formula imposed by the IMF and implemented by President Dissanayake's Janatha Vimukthi Peramuna-led National People's Power (JVP/NPP) government.

As a result of the impact of the war on Iran and associated global uncertainty, Sri Lanka's rupee has fallen in value by around 8 percent since February 28 and continues to fluctuate, increasing the price of all essentials.

The IMF praised the government for significantly exceeding revenue targets in 2025. Tax revenue increased

dramatically, helping to produce a primary surplus of 5.4 percent of GDP, far above the IMF target of 2.3 percent. These gains were extracted from the working population through various tax increases and cuts to vital state spending.

While the government's poverty line for May has been increased to 17,117 rupees per month (\$52) for the survival of one person, even a monthly income of 70,000 rupees is no longer sufficient to meet the basic expenses of a four-member family. Some surveys show that a family now requires at least 150,000 rupees per month to maintain living standards.

According to a World Bank survey in October 2025, poverty remained high at nearly 22 percent, with another 10 percent of the population just above the poverty line.

Preparing for new attacks on behalf of international investors and big business, Dissanayake declared at a recent event that the government was determined to "win the economic war." The event was held to commemorate the Sri Lankan state's victory in the brutal communal war against the separatist Liberation Tigers of Tamil Eelam. Now, "economic war" is being waged to make workers and the poor pay for the deepening crisis of capitalism.

Energy Minister Anura Karunatilake, speaking at an event at a petroleum storage facility on Monday, said Sri Lanka had increased fuel prices "by a lower percentage compared to other countries" and asked people to "reduce consumption to halt the draining of foreign reserves." The implication is that the government is preparing another major increase in fuel prices.

Big business has enthusiastically welcomed the IMF loan tranche and review. The Ceylon Chamber of Commerce praised the approval and demanded the continuation of structural reforms, improved competitiveness and policies supporting "private sector-led growth."

It specifically emphasized maintaining cost-reflective fuel pricing, not defending the exchange rate—that is, allowing further devaluation—and implementing measures to reassure investors.

The opposition parties, meanwhile, have indicated their support for stepped-up austerity as demanded by the IMF.

As the rupee's value dropped and global economic uncertainties deepened, opposition parties led by the Samagi Jana Balawegaya (SJB) met on May 21 and decided to request that the president hold an all-party conference, a request that the government ignored. SJB leader Sajith Premadasa urged the government to seek a "successor IMF program," as the current program ends in March 2027, while the country still faces a severe foreign reserve shortage.

The ruling class is acutely aware that mass opposition is developing beneath the surface. More than 1,000

Government Printing Department workers launched a one-day strike last week and held a demonstration demanding an end to wage cuts and privatisation measures.

About 20,000 electricity board employees, who have been transferred to six companies as part of moves toward privatisation, are increasingly restive because of uncertainty over their jobs, wages and working conditions. Trade union bureaucracies are continuously engaged in discussions with the government and company management to avert any eruption of opposition.

The rising cost of fuel, electricity and food is provoking growing anger throughout the country.

The government is responding to this social discontent by strengthening the state apparatus. Last week, the president again extended Essential Public Services regulations covering 15 services and almost all important institutions. Meanwhile, draconian Emergency Regulations, extended on May 7, remain in force. The opposition parties fully support these harsh regulations.

Under the Essential Services regulations, all industrial action is prohibited, with the threat of jailing participants and campaigners, dismissal from employment and blacklisting from state jobs. Under the Emergency Regulations, the three armed forces can be mobilized, existing legal rights can be overridden, people can be arrested and detained, and censorship can be imposed, among other measures.

The government, with the backing of every section of the ruling elite, is moving towards increasingly autocratic forms of rule. The only way to defend democratic rights and oppose the escalating social devastation is for the working class to build an independent political movement, based on a socialist and internationalist program, rallying the rural masses and fighting for a workers' and peasants' government.



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