Sri Lankan government boasts of “economic recovery” as austerity deepens

Saman Gunadasa
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The Sri Lankan government is celebrating its compliance with International Monetary Fund (IMF) targets for austerity cuts, while workers and oppressed people are falling deeper into poverty.

In an August 26 speech to diplomats in Colombo, Central Bank Governor Nandalal Weerasinghe declared that the economy had recovered to “almost the level seen before the crisis”—the economic collapse which led to a debt default in 2022. He cited stronger government revenue, improved fiscal balances and progress on debt restructuring.

Earlier, on August 18, speaking to Bloomberg Television during an “Invest Sri Lanka” roadshow in Australia, Weerasinghe urged foreign investors to “take a fresh look” at Sri Lanka. Claiming the economy was “recovering nicely,” he said “this is the time” to invest.

He pointed to economic growth of around 5 percent and improved foreign reserves. This “recovery,” overseen by the Janatha Vimukthi Peramuna-led National People’s Power (JVP/NPP) government, is benefiting the island’s wealthy capitalist elite—at the direct expense of millions of workers, farmers and the rural poor.

The economic stabilisation achieved since 2022 has been built on making working people pay for the crisis through higher taxes, reduced real wages, cuts to public spending and higher prices.

Signaling that the government is committed to deepening its austerity measures, Department of Fiscal Policy Director General M.K.C. Senanayake declared on August 30 that “all the conditions will be met” for the seventh review of the IMF’s Extended Fund Facility. IMF officials will visit Sri Lanka next week for the review.

The eighth and final review is due in early 2027, when the four-year, $3 billion IMF bailout ends. Discussions are already under way for a successor IMF program.

The pressure will intensify as foreign debt repayments rise. Deputy Finance Minister Anil Jayantha Fernando told parliament that Sri Lanka faces around $3.9 billion in foreign debt repayments in April 2028, and the IMF has estimated annual external debt servicing at $3.2–$3.5 billion from that year. The government will respond by squeezing more resources from the working population to satisfy international creditors.

This is not specifically a Sri Lankan phenomenon. Governments around the world are making workers bear the cost of the capitalist crisis and imperialist war, while protecting the interests of the financial and corporate elite.

The World Bank estimates that poverty remains close to 22 percent, while 10 percent of the population lives just above the poverty line. The World Food Programme reports that 39 percent of households have inadequate diets, while nearly one-third of children under five suffer from malnutrition. These figures expose the gulf between the claims of the government and central bank and the reality facing millions.

The increasing burden on workers is reflected in a staggering 33 percent decline in public sector wages since 2022. The private sector is no better: economist Nishan de Mel recently cited provident fund (EPF) data showing that 92 percent of formal private-sector employees earn less than 100,000 rupees ($305) a month.

Prices of essential goods continue to rise sharply: a kilogram of wheat flour increased by 9 percent last week to 207 rupees. Official inflation reached 8 percent last month.

A recent comparison based on International Labour

Organization (ILO) data placed Sri Lanka 120th among 130 countries in purchasing-power-adjusted minimum wages, at the equivalent of only $200 a month. This is below Pakistan, Nepal, Bangladesh and India.

The scale of the plunder is laid bare in the accounts of the ruling elite's own flagship companies. John Keells Holdings—Sri Lanka's largest listed conglomerate, with interests in banking, insurance, hotels, ports, tea, food manufacturing, and supermarkets—closed the financial year to March 2026 with profit attributable to equity holders up 155 percent to Rs 13.24 billion, on recurring pre-tax profit that surged 143 percent to Rs 35.72 billion.

Commercial Bank, Sri Lanka's largest private bank, reported a June-quarter 2026 profit of Rs 17.49 billion, up nearly 8 percent year-on-year, bringing first-half 2026 profit to Rs 34.9 billion—a 13.56 percent increase over the same period in 2025.

The IMF bailout terms require the government to return a primary budget surplus of 2.3 percent of gross domestic product (GDP) in 2027, while holding primary expenditure within a ceiling of 13 percent of GDP. To achieve this, the IMF is demanding deeper austerity measures, including higher tax revenues, strict control of public spending, the restructuring of state-owned enterprises and continued cost-based pricing of electricity, fuel and other utilities.

This agenda is fueling anger among workers and the rural masses, who are being driven into conflict with the government and the capitalist system it defends. Government employees—including Grama Niladhari (local government administrative) officers, development officers, pharmacists and public health inspectors—have taken industrial action over low wages, deteriorating conditions and increased workloads. Teachers have protested over unpaid salary increases and promotions.

More than 1,000 workers at the Sevanagala Sugar Factory have launched an indefinite strike over wages, and sugar-cane farmers have protested over delayed payments.

Farmers are facing mounting pressure from rising production costs and inadequate prices for their crops. Paddy farmers have protested over fertilizer shortages, delayed subsidies and government-controlled prices that do not cover their costs.

On September 2, several hundred students, mainly medical students, protested at the University of Peradeniya, demanding better university facilities and opposing privatisation.

The government is responding by preparing to forcibly suppress opposition. It has already used the Essential Services Act and emergency regulations to restrict strikes. A new anti-terror law, which will replace the notorious Prevention of Terrorism Act (PTA) will further increase the state's repressive powers. The recruitment of police officers is also being increased.

The opposition parties offer no alternative. The Samagi Jana Balawegaya (SJB) supports continued IMF discipline and has already called for a successor IMF program. The question confronting workers is not which capitalist party should administer austerity, but how to fight the agenda that they all share.

Workers are increasingly being compelled to launch struggles in defiance of the official trade unions, which seek to confine them to isolated and futile appeals to the capitalist state and employers. Workers must break the stranglehold of the union bureaucracy, which exists to enforce the demands of big business.

To build a united struggle against the relentless attacks of the capitalist class, workers must form their own independent action committees—rank-and-file bodies, controlled democratically by workers and answerable to no union official, no capitalist party and no pseudo-left organisation.

Only such committees, built in the workplaces across all sectors of the economy, and united with farmers, students and the rural poor, can give the scattered struggles now unfolding a common program and a common direction.

These committees must join and build the International Workers' Alliance of Rank-and-File Committees, to unite workers in Sri Lanka with those in India and other countries who confront the same conditions of worsening poverty and exploitation. What is required is an international struggle against the capitalist system itself, based on a socialist perspective.

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