

Sri Lankan government assures IMF it will present 2027 austerity budget

Saman Gunadasa
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The International Monetary Fund (IMF) announced on October 5 that it had reached a staff-level agreement with the Sri Lankan government on the seventh review of its \$3 billion bailout loan, agreed in March 2023.

The agreement remains subject to IMF Executive Board approval, contingent on Colombo presenting a 2027 budget in line with the IMF programme and completing a review of financing assurances and progress on debt restructuring.

The following day, Deputy Finance Minister Anil Jayantha Fernando confirmed that the budget would conform to IMF requirements.

This means that the government's 2027 budget, like previous budgets since 2023, is being drawn up under the dictates of an international institution representing international finance capital. Its main objective is to ensure the repayment of foreign debt, on which the Sri Lankan government defaulted in 2022 amid an economic collapse exacerbated by the global COVID-19 pandemic and the NATO war against Russia in Ukraine.

Next year's budget is scheduled to be presented to parliament on November 12 by President Anura Kumara Dissanayake, who is also the finance minister.

Although the president and his ministers repeatedly boast of an "economic recovery" under their administration, they are well aware that the government is on precarious ground. It is keen to secure the seventh instalment of the IMF loan, amounting to \$345 million. This would pave the way for approximately \$1 billion in additional assistance—or, more accurately, loans—from the World Bank and the Asian Development Bank.

What does the IMF-dictated budget mean for workers and the poor? The Janatha Vimukthi Peramuna/National People's Power (JVP/NPP) government will intensify austerity measures, further increasing the cost of living, cutting welfare subsidies and accelerating the privatisation or commercialisation of state-owned enterprises, with further job cuts and attacks on working conditions.

The IMF is calling for increased revenue mobilisation, greater tax efficiency, continued cost-recovery pricing for

energy and greater exchange-rate flexibility.

The IMF's call for "broadening the tax base" means imposing taxes on a wider range of goods, services and economic activities. "Strengthening compliance" means collecting taxes more aggressively. "Cost-recovery pricing" means requiring consumers to pay the full cost of electricity and fuel, including increases in production and supply costs.

The IMF's insistence on maintaining "exchange-rate flexibility" in line with international market movements means allowing the rupee to depreciate, further increasing the prices of imported goods.

As in other countries, the US war against Iran has heightened the risks to Sri Lanka's energy supplies, international shipping and trade through the Strait of Hormuz. Because the country depends heavily on imported fuel and other essential goods, these developments have increased import costs and intensified pressure on its external finances.

The IMF has described the conflict in the Middle East as Sri Lanka's most significant external shock since the 2022 economic crisis.

According to the IMF, Sri Lanka raised administered fuel prices four times after February 2026, with cumulative increases of approximately 38–46 percent across fuel categories. These increases have raised the costs of transport, fishing, agriculture, electricity generation and the distribution of goods.

Rising international prices are compounded by the depreciation of the rupee against the US dollar.

Higher fuel and other import costs have contributed to accelerating domestic inflation. According to the Central Bank of Sri Lanka, headline inflation, measured by the Colombo Consumer Price Index, rose from 5.5 percent in May 2026 to 8 percent in August and remained at that level in September. Food inflation reached 8.7 percent in September.

The war also threatens two important sources of foreign exchange for Sri Lanka: tourism and workers' remittances.

The government and the IMF point to gross domestic

product (GDP) growth of 4.2 percent in the second quarter of 2026 and 11 consecutive quarters of economic expansion. These figures reveal very little about the living conditions of workers and the poor.

The World Bank itself acknowledges in its latest updates on Sri Lanka that the “recovery” is uneven. Poverty remains above its 2019 level, while real wages are approximately 12 percent below their level that year.

The World Bank’s latest projection puts poverty at 15.8 percent in 2026, compared with 11.5 percent in 2019. About 39 percent of households have inadequate diets, and nearly one-third of children under five suffer from malnutrition. Public-sector wages have fallen by 33 percent since 2022.

Meanwhile, young people face a severe jobs crisis. IMF data cited in September showed unemployment of 43 percent among Sri Lankans aged 15–24 with post-secondary education. The corresponding figures for India and Bangladesh were also high, at 42 percent and 36 percent, respectively.

Under the banner of “fiscal discipline,” the government increased tax revenue by 20 percent to 3.68 trillion rupees in the first eight months of 2026, including a 22 percent rise in VAT revenue. Meanwhile, capital spending remained far below its annual allocation, while interest payments absorbed a huge portion of recurrent expenditure.

At the same time, capital spending remained far below its annual allocation, while interest payments absorbed a huge portion of recurrent expenditure. Revenue is extracted while expenditure to meet social needs is restrained. That is the entire logic of “fiscal discipline.”

The government and the IMF also celebrate that debt restructuring has been “largely completed.” But restructuring merely changes the terms and timing of repayment.

Full external debt repayments are due to resume in 2028, adding to the country’s external financial obligations. Government fiscal documents project \$2.5 billion in foreign debt servicing for 2026 alone.

Debt-interest payments in 2025 reached 2,950 billion rupees, or 8.9 percent of GDP—13 times the agriculture budget and almost five times the allocations for health or education.

Debt repayment is central to the entire IMF programme. The IMF says the government must restore a primary surplus of 2.3 percent of GDP in 2027.

To meet this target, the JVP/NPP government is preparing even deeper cuts to public expenditure and social services.

Speaking at the economic summit organised by the Ceylon Chamber of Commerce, Sri Lanka’s main big-business lobby, on October 12, President Dissanayake revealed that the government was discussing a new programme with

senior officials.

He added: “With the current IMF programme, we have achieved considerable stability. Now we need to protect the stability ... it would be good if we could go for a new deal targeting growth.” Citing “global uncertainty,” he pointed to an expected rise in the annual fuel bill from \$4 billion to \$6 billion.

The response of the parliamentary opposition exposes the political bankruptcy of the entire capitalist establishment. Samagi Jana Balawegaya (SJB) leader Sajith Premadasa has already called for a successor IMF programme rather than rejecting the existing framework.

The Socialist Equality Party’s (SEP) recent Fourth Congress drew the necessary conclusions. It called for the independent mobilisation of the working class against austerity through the establishment of workplace action committees, free from the influence of capitalist parties and the trade union bureaucracy, which helps enforce the government’s social counterrevolution.

The fight against IMF austerity in Sri Lanka must be connected with the struggles of workers internationally against austerity, war, privatisation and attacks on democratic rights. The repudiation of foreign debt repayments is key to this struggle.

The SEP calls on workers to coordinate their action committees through the International Workers Alliance of Rank-and-File Committees, building it into the coordinating centre of a global fightback.

This struggle raises the necessity for a workers’ and peasants’ government, to take political power and reorganise the economy to meet social needs rather than the demands of international finance capital.

We urge workers and young people to attend the SEP’s meeting on November 10, entitled “Two Years of JVP/NPP Rule: A Regime of Big Business and IMF Austerity,” which will discuss the political strategy needed to fight austerity.



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