Sri Lankan Central Bank chief demands “structural reform”

By Saman Gunadasa
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Presenting the Central Bank’s “Road Map 2020 and Beyond” on January 6, its governor Professor Weligamage Don Lakshman declared that “the Sri Lankan economy is at a crossroads.” He said “tough challenges remain” and economic “reform” was essential.

The recently-formed government of President Gotabhaya Rajapakse installed Lakshman as the bank’s chief on December 24. His statements indicate that the government is preparing to further impose the burden of the country’s economic crisis on the back of the working people, in line with the dictates of the International Monetary Fund (IMF).

The central bank chief highlighted the sluggish growth of the economy—last year’s growth is estimated to be just 2.8 percent—and insisted that “inability to address structural issues” had “caused this persistent slowdown.”

Lakshman said the government was “engaging” with the IMF, which was “likely to be instrumental in supporting external sector stability.” In other words, the IMF’s requirements must be imposed in order to appease the global financial markets.

Addressing the “structural issues” means implementing the IMF’s austerity measures, including privatising and commercialising state-owned enterprises, increasing charges for utility services such as water and electricity, and slashing subsidies on essential goods.

These were the main conditions attached to the $US1.5 billion bailout loan approved by IMF in 2016. The IMF set the target of reducing the budget deficit from 7 percent to 3.5 percent of the gross domestic product (GDP).

As it began implementing those conditions, the previous government of President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe faced increasing opposition in the working class and poor, marked by a series of strikes and protests.

Lakshman pointed to numerous global processes affecting the Sri Lankan economy, such as “increased geopolitical and trade tensions” and “widespread slowdown in the global economy.”

After coming to power with false promises to ease the economic burden on workers and the poor, Rajapakse’s government immediately handed tax reductions to corporations in order to boost profits, claiming this would help the ailing economy.

In a policy speech on January 3, Rajapakse urged companies to pass “some percentage of the benefits of the tax concessions recently provided to them to the public as well.”

However, there has been no significant reduction in the prices of essentials. In fact, many prices, including for rice—a staple food for Sri Lankan people—have been gone up.

Lakshman said the drop in tax revenue as a result of the corporate concessions would be covered by eliminating “unproductive current expenditure.” The cash-strapped Sri Lanka Podujana Peramuna (SLPP) government already has instructed all departments and state corporations to cut spending and stop new projects. This will affect public education, health and public sector projects.

The bank governor also said government revenues would be enhanced through “essential reforms” of state-owned enterprises. In plain language, this means privatising and downsizing state ventures.

Lakshman claimed that “policy uncertainty” was leading to “weak investor confidence and low levels of investment.” This is a thinly-veiled call for a government that will impose the policies needed to
attract investors, which is also Rajapakse’s aim.

In another article on the economic crisis, titled “Gota’s Economic War,” former Central Bank deputy governor W. A. Wijewardena recently urged Gotabhaya Rajapakse to conduct a “war” on the economy. He wrote that the falling growth rate, a fragile external sector and external debts were serious problems for the country.

Citing the Central Bank, Wijewardena pointed out that the government and private sector must pay loan instalments and interest amounting to $US6 billion in the next 12 months, but the country’s liquid foreign exchange reserves stood at just $6.5 billion. Hence, using foreign reserves to pay back debt would reduce them to a critically low level.

“The country’s external debt overhang is looming frighteningly over Gota’s administration,” Wijewardena wrote. He voiced concern that Rajapakse was concentrating on winning the forthcoming parliamentary election “at the expense of sound economic policies,” that is, austerity measures. He referred to the economic challenges as having the “ferocity of the enemy.”

While “the economic war has to be temporarily kept aside until the conclusion of the scheduled parliamentary elections,” Wijewardena declared, “Gota[bhaya] should wake up and fight his economic war to a conclusion as he did in the case of his other wars.”

Rajapakse’s primary “other war” was as the defence secretary when the government headed by his brother, President Mahinda Rajapakse, directed the bloody communal onslaught against the separatist Liberation Tigers of Tamil Eelam. During the final stage of the war alone, in 2009, at least 40,000 Tamil civilians were killed, according to United Nations estimates.

As defence secretary, Rajapakse also used the military and police to forcibly evict hundreds of Colombo slum dwellers and to crush the struggles of workers and poor.

As signaled by Lakshman and Wijewardena, the representatives and advisors of the ruling class are demanding a similar war now to crush the resistance of workers and the poor, and implement the agenda of big business and international finance capital.

President Rajapakse is currently preparing for such a war by appointing generals to key posts and bidding for a big majority in a parliamentary election in order to rewrite the constitution to boost his presidential powers and establish authoritarian rule.

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