

# Sri Lankan president orders Central Bank to give more credit to big business

By Saman Gunadasa  
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The Central Bank of Sri Lanka announced on June 28 that it would make available 150 billion rupees (\$US810 million) to the big businesses, starting on July 1. The announcement was in response to a direct order from President Gotabhaya Rajapakse to top Central Bank officials, including Governor W.D. Lakshman, and followed an earlier directive.

The Central Bank announcement said it would “provide a credit guarantee to banks, ranging from 80 percent for smaller loans to 50 percent for relatively large loans, enabling banks to grant loans to address working capital requirements of the [COVID-19] affected businesses.”

Pledging to absorb a “significantly higher percentage of the credit risk,” the Central Bank directed commercial banks to “extend their lending to vulnerable businesses, focusing on the viability and cash flows of such businesses rather than collateral.” The commercial banks, it added, should use the additional liquidity to grant loans at 4 percent to businesses with the Central Bank providing an interest subsidy of 5 percent to cover the cost to the banks.

The statement was issued after President Rajapakse had summoned Central Bank officials to his office on June 16 and accused them for not carrying out orders he issued on March 27. At that time, Rajapakse called for 50 billion rupees to be given to commercial banks for loans to pandemic-hit businesses. On May 20, the Sri Lankan cabinet approved a 100 billion rupee grant from the Central Bank for commercial bank loans.

During last week’s meeting with Central Bank officials, Rajapakse declared that “the people of this country have bestowed a great power on me to build this country.”

Abandoning any pretence of observing the independence of the Central Bank, he bluntly stated

that its fiscal policies should be “in accordance with the economic policy of the president of the country.” Providing bank loans, he said, was “a money circulation process” and a “very simple tactic,” and declared, “But, what are you doing?”

Pliant Central Bank officials issued a detailed statement later that night, explaining how they would implement Rajapakse’s previous orders. The Central Bank and the Ministry of Finance are also reportedly considering tax exemptions and concessions, faster tax refunds and collateral waivers for the corporates and other businesses.

While Central Bank officials have not explained why they delayed acting on Rajapakse’s previous orders, the bank is committed to financial targets set down under the International Monetary Fund’s \$1.5 billion bailout loan in 2016. This includes ensuring that Sri Lanka meets its financial deficit target of 3.5 percent of gross domestic product (GDP) this year and other IMF austerity demands. The fiscal deficit hit 6.7 percent of GDP last year and is estimated to climb higher this year.

While Rajapakse claims to have a mandate from the people, he came to power by exploiting mass anger against the previous government and its austerity measures. His meeting with Central Bank officials occurred two days after consulting with Sri Lankan exporters who complained about not receiving bank loans and demanded an immediate remedy.

Rajapakse is becoming increasingly desperate over Sri Lanka’s economic decline, which has been accelerated by the pandemic. Economic growth declined in 2018 and 2019 to 3.3 and 2.3 percent respectively. The World Bank is currently predicting growth of just 3.3 percent this year.

In May, Sri Lanka’s export earnings declined by 37

percent to \$602 million, tourism has collapsed and remittances from overseas workers fell by 32.3 percent in April 2020 to \$375 million compared to same period last year.

The president's claim that the "simple tactic" of increasing money circulation will revive the economy is an illusion. Hit by the COVID-19 pandemic, the global economy, which is expected to shrink by 5.2 percent this year, confronts the deepest recession since WWII. The latest IMF Outlook report is predicting further growth falls in the US and European Union (EU) to -8 percent and -10.2 percent respectively.

Last month, the *Economist* magazine rated Sri Lanka 61st out of 66 countries confronting financial distress from public debt, foreign debt and this year's debt repayment costs. It reported that Sri Lanka was the worst hit economy in South Asia, well behind Bangladesh, India and Pakistan.

Last week, the Fitch ratings agency warned that Sri Lanka's budget deficit may balloon to 9.3 percent this year and that debt payment pressure will intensify. The agency downgraded the country's credit rating from B to B minus in April, thereby reducing its ability to obtain loans from commercial sources. Between June and December Sri Lanka will have to pay \$3.8 billion in debt servicing and an average of \$4.3 billion per year from 2021 to 2025.

Fitch noted that an "increase in external funding stress, reflected in a narrowing of funding options and weaker refinancing capacity, was threatening Sri Lanka's ability to meet external debt repayments."

Confronted with this crisis, Colombo is desperate for funds in order to avoid a default on its foreign debts. On June 18, Rajapakse met with European Union ambassadors in Colombo telling them that under the current circumstances, "Sri Lanka would benefit from a debt moratorium." The government has also requested an \$800 million loan from the IMF, which will entail even more drastic austerity measures against the working class.

While providing huge concessions to Sri Lankan banks and big business, the government is imposing increasing economic burdens on workers and the poor.

At the end of May, the government hiked taxes from 50 to 100 percent on essential food items, such as sugar, potatoes, onions, tinned fish, spices, dairy products and fruits. At the same time, employers, with

the blessing of the government, are using the COVID-19 pandemic to implement massive job and wage cuts and attacks on working conditions. This assault will intensify.

The National Chamber of Exporters recently declared that labour laws in Sri Lanka "are heavily in favour of employees and prevent flexibility with regards to employment of labour in crisis situations." It called for piece-rate payments, the "temporary" suspension of provident fund payments and the elimination of holidays and other limited social gains, such as compensation for laid off workers.

The situation confronting workers at Brandix, one of the largest garment companies in Sri Lanka, since COVID-19 hit, typifies that facing thousands of workers across the country. Brandix employed about 47,000 people before the pandemic.

As one worker from the company's Seeduwa plant near Katunayake recently explained to the *World Socialist Web Site*: "Before COVID-19 there were about 1,700 workers employed here but that number has now been cut to 600.

"Management is harshly ordering workers around, sometimes telling us to go home if we don't work fast enough. We previously sewed slacks but are now producing masks. They set a target of 300 masks per day but we're only able to do 250 pieces. Sometimes female workers are not even able to go to the wash room. Incentive allowances, including the attendance allowance, have also been slashed.

"The company has sacked workers who have spoken out against the harsh conditions. Management is nervous about the unrest among workers and is moving people around to different work lines every day."

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