Sri Lankan government to entrench IMF austerity in legislation

Saman Gunadasa
2 June 2024

The Economic Transformation Bill (ETB) was presented to the Sri Lankan parliament on May 22 by President Ranil Wickremesinghe in his capacity as the minister for finance, economic stabilisation and national policies. The government wants the new measure to be discussed and passed by the parliament as soon as possible.

The purpose of the bill is to facilitate increased opportunities for international capital, in line with International Monetary Fund (IMF) demands and the savage austerity measures tied to its $US3 billion bailout loan.

The policies outlined in the bill are to be maintained by all future Sri Lankan governments, which must present specific annual targets on March 31 every year. As section six states, "All policies, programmes, regulations, circulars and directives of the Government shall conform to such National Policy on Economic Transformation."

Section 11 of the bill proposes the establishment of an Economic Commission (EC). This entity will have enormous power to assist big business, including to formulate and review policies and regulations relating to investments, and to direct the implementation of reforms required for improving the investment climate.

The EC will replace the existing Board of Investments which was established in 1978 to facilitate foreign and local investments in free trade zones and outside. Six of the 10-member commission will be appointed by the president.

The bill establishes several other corporate bodies, including Investment Zones Sri Lanka, the Office for International Trade, the National Productivity Commission and the Sri Lanka Institute of Economics and International Trade. These bodies will be managed by EC members and others appointed by Wickremesinghe.

Taken as a whole, the ETB further concentrates economic policy power in the hands of Sri Lanka's executive president and is a further move towards autocratic forms of rule.

Section 13 of the bill lists some of the EC's powers, which include approving investment or enterprise contracts with anyone and the right to declare Investment Zones virtually anywhere in the country. The bill abolishes a "negative list"—i.e., areas banned from foreign investments because of public safety, environmental protection or other concerns. The ETB will allow cabinet to approve any investment registered by the EC.

According to section 46, government institutions must inform the EC within 15 days of any inquiry or request on any investment project proposal. Any rejection of such a proposal by a government body must convey its decision to the EC within 21 days. The commission, however, has the power to give its own recommendation through the minister to the cabinet for all such investment proposals.

These specified time periods and powers indicate that the EC will be able to ignore the opinions of any government entities, including labour and environment protection issues, to give a green light to any investment project.

The following measures are legalised, according to the sections three and four of the bill, to fulfill the IMF conditions to obtain revenue for the foreign debt repayments:

"To bring the Central Government Annual Gross Financing Needs to Gross Domestic Production (GDP) ratio to below 13 percent by the year 2032 and thereafter..."

The proposed reduction compares to last year's 27 percent ratio, indicating drastic cuts in government spending for health and education, subsidies to farmers and social welfare funding.

* "Government revenue to reach at least 15 percent of the gross GDP beyond the year 2027…"

The revenue increase, which is up from 11 percent last year, is expected to be achieved through further tax increases on working people and the rural masses already hit by high inflation.

Such measures would come on top of the already imposed 18 percent value added tax (VAT) for almost all goods and services, in addition to higher import taxes and special levies. Last year, the government increased income tax to cover employees earning a monthly income of 100,000 rupees or more.

* "Public Debt to Gross Domestic Production ratio shall be below 95 percent by the year 2032 and thereafter…"

This ratio, which was over 105 percent last year, is supposed to be reduced only through paying the accumulated debt and reducing the fresh debts by limiting the government expenditure. It will further impact on remaining social welfare programs, as well as public education and health.

The Economic Transformation Bill was tabled as the government expands its list of state-owned enterprises (SOE) to be privatised. These include Hotel Developers Lanka, Canwill Holdings, Lanka Hospitals Corporation, Sri Lanka Telecom, Sri Lanka Insurance Corporation, Litro Gas Lanka and Litro Gas Terminal companies and Sri Lankan Airlines. The government has advertised globally for the sale of these enterprises and bids have been obtained.

Hundreds of other SOEs are on the chopping block for privatisation and commercialisation, or the outright closure of those deemed to be unprofitable entities. These attacks will affect around 500,000 workers employed in these institutions.

International creditors and the Sri Lankan ruling elite are becoming nervous about growing working-class opposition to the IMF austerity measures.

Sri Lanka's big business lobby, the Ceylon Chamber of Commerce, recently issued a statement warning, "It is crucial that all political parties focus on Sri Lanka's long-term sustainability and avoid leveraging the reform process for short term election gains."

While the Samagi Jana Balawegaya (SJB), the main parliamentary opposition party, has not issued any statement on the ETB, one of its leaders, Dr. Harsha De Silva told the media that it was acceptable with some amendments.

The Janatha Vimukthi Peramuna-led National People's Power (NPP) said it would launch a Supreme Court to challenge the bill. This is a political diversion. The ETB, with or without amendments that might be suggested by the court, will be pushed through parliament.

According to the *Daily FT*, NPP Economic Council Member Sunil Handunneththi has criticised the bill, saying there had not been any call for the new legislation from the Chamber of Commerce, industrialists' associations, or representatives of the private sector. He called for the government to "provide an explanation for its decision to introduce the Bill." In other words, the concerns of the JVP/NPP about the ETB are centred on what impact it will have on big business in Sri Lanka.

Both the SJB and the JJB continue to insist that all those opposed to the Wickremesinghe regime should vote for them in the upcoming presidential and national election. To hoodwink the population, they demagogically claim that a government under their control would "renegotiate" the IMF program.

This is an outright lie. Both parties fully embrace the IMF's social attacks, having had closed-door meetings with the IMF envoys for Sri Lanka and agreed to implement its austerity measures.

Contrary to the posturing of these parties and the trade unions, mass protests and appeals to the Wickremesinghe regime, or any successive government, will not defend the workers' jobs, wages and social conditions.

The bitter experiences of the working class over the past two years have not only demonstrated the futility of such actions but given the government time to proceed with its brutal social measures.

The Socialist Equality Party (SEP) calls upon the working class to rally the rural masses and launch a political struggle for a workers' and peasants' government based on an internationalist socialist perspective which includes the repudiation of all foreign debt and the nationalisation of the banks and the big corporations.