

Sri Lanka IMF Program Cannot Solve Internal Crisis

Parliament debates the anticipated bailout while the long-term solutions to development remain elusive.

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Less than one year ago, the people of the Democratic Socialist Republic of Sri Lanka were up in arms over the worsening economic situation prompting hundreds of thousands of people to take to the streets demanding relief from the impending bankruptcy.

At present the parliament of the South Asian state located in the Indian Ocean is expected to accept an International Monetary Fund (IMF) package which would provide \$3 Billion in much-needed liquidity to the national economy.

President Ranil Wickremesinghe inherited the crisis from his predecessor Gotabaya Rajapaksa and has now appealed to the parliament to immediately authorize the IMF package. He accepts that there have been 16 other IMF agreements involving the country, yet the president is attempting to present a positive spin on the economic projections for the future.

Since the crisis unfolded during the early months of 2022, there has been much speculation as to how the economy could be stabilized. Inflation rates were in excess of 70% while the incapacity to pay debts to foreign financial institutions and governments hampered the ability of Sri Lanka to conduct trade with other countries.

Consequently, shortages of consumer goods became a major social problem. Price hikes placed food, fuel and other services beyond the means of many people to purchase. A plan to introduce synthetic fertilizer as an import substitution failed resulting in a decline in the production of rice and tea, two main cash crops.

Mass demonstrations erupted which demanded that the then government resign. Later people would occupy the presidential palace and parliament leading to violent clashes with the security forces. Severe property damage was done to the residence of the president.

The Sri Lankan government responded with harsh measures declaring a state of emergency which suspended the right to assemble and banned social media. These repressive policies only further angered the people of the country.

Image: Sri Lanka President Ranil Wickremesinghe in parliament



By July the Rajapaksa administration was in disarray. A cabinet reshuffle proved inadequate to calm the discontent. Later Rajapaksa fled the country eventually leading to the ascendancy of then Prime Minister Ranil Wickremesinghe who was voted into the presidency by the parliament. Since the coming to power of Wickremesinghe he has sought to negotiate with the IMF, the World Bank and the Asian Development Bank for assistance in reducing the foreign debt.

In his address before the Sri Lankan parliament on April 26, Wickremesinghe [said that](#):

“Today, we received the financing assurance from foreign creditors, with the Paris Club and India working together to grant it. India was the first to publish it, and we are grateful for that. China is expected to deal with it separately, so we will discuss with the Paris Club and India on one hand and negotiate with China on the other. After these discussions, we will have talks with private creditors. This agreement will enable us to receive approximately \$3 billion from the International Monetary Fund over the next four years, with the potential to obtain about \$7 billion from other institutions. This money is crucial for us. Additionally, we have regained the trust of foreign banks and financial institutions, with economic stability already being established in the country. Social Security is receiving more funding, and investors are showing a keen interest in Sri Lanka.... One of the points to address is debt restructuring talks with our bilateral countries and private creditors. We want to restructure these loans, as failure to do so will result in a loss of liquidity. In order for the government to move forward, the restructuring must be done in rupees or dollars. The government wants to obtain funds for this service. Therefore, we must first negotiate with foreign creditors. We hope to initiate these discussions soon, with domestic debt restructuring also being considered. A final decision has not yet been made, but it is important to discuss this issue. Negotiations cannot be held with terms and conditions already in place. It is easier for us to join negotiations without conditions.”

A Left Program is Needed to Counter the IMF and World Bank Policies

Yet this statement by President Wickremesinghe ignores the persistent draconian conditionalities which are imposed by the IMF and the World Bank in regard to developing

states. There are more than five decades of examples of the socially destructive impact of the IMF and World Bank.

Both institutions are a by-product of the Bretton Woods monetary system which arose towards the conclusion of the Second World War. Initially these programs were designed for the economic and industrial reconstruction of Europe after the antifascist wars of the 1930s and 1940s. However, by the mid-1960s, the IMF and World Bank were being utilized by imperialism to stifle the emergence of genuine independent governments in the post-colonial period.

During the mass demonstrations and rebellions of 2022, the general thrust of the protests was anti-capitalist in their orientation. Although the actions largely led by youth were spontaneous, the organized Left did play an important role by drawing from the legacy of the movements which created the political atmosphere for national liberation from British colonialism in the aftermath of World War II. Sri Lanka gained its independence in 1948 and underwent significant political developments from the 1950s through the 1980s.

[In an article](#) written by Smruti S. Pattanaik of the Manohar Parrikar Institute for Defense Studies and Analyses in New Delhi, India, the author explains:

“In Sri Lanka, Left political organizations—the Janatha Vimukti Peramuna (JVP) and its breakaway faction, the Frontline Socialist Party (FSP), Peratugami Samajavadi Pakshaya in Sinhala—have been trying to carve a niche for themselves in the light of the socio-economic turmoil that the country has witnessed in the recent past. Youth fronts of the JVP—Socialist Youth Union and Socialist Students Union of JVP and FSP—Youth for Change and Revolutionary Students Union, were at the forefront motivating and mobilizing the masses to fight against the corrupt regime. These trade unions, students’ organizations and other Left-oriented artists, women organizations participated in large numbers in the protest movement.”

Any neoliberal economic restructuring scheme cannot effectively address the problems of mounting poverty and underdevelopment in Sri Lanka along with other developing states of the Global South. Even if legislation by the Sri Lanka parliament to accept the IMF package is adopted, this approach cannot provide a sustainable path towards stability.

Left parties, coalitions and trade unions can continue to make a monumental contribution to the political education and mobilization of the workers, farmers and youth. Every encroachment upon the living standards of the masses could be addressed through opposition efforts within and outside of the legislative structures. Alternative proposals for the funding of social programs and the economic empowerment of the people will inevitably become fierce terrains for political and mass struggles.

The crisis in Sri Lanka is not taking place within a historical vacuum. In Africa, three states: Egypt, Ghana and Zambia are facing a similar plight as they seek to negotiate loans from the IMF and other western-based financial institutions. The tightening of credit by the banks is occurring in the aftermath of the economic shocks induced by the pandemic which emerged in the early months of 2020.

In addition, the Russian special military operation in Ukraine provided a rationale for the imperialist states to enact unprecedented sanctions against the Russian Federation. The war and the subsequent embargo of Moscow has created food and agricultural inputs shortages

on an international scale. The lack of affordable food and energy resources has compounded the humanitarian crises in various geopolitical regions of the world.

Human Rights Watch addressed the potential for further repression in Egypt [emphasizing](#):

“The International Monetary Fund’s new US\$3 billion loan agreement with Egypt largely continues an economic approach that leaves the economic rights of millions unprotected, Human Rights Watch and Democracy in the Arab World Now (DAWN) said today. The agreement includes improved efforts to address deep-seated structural problems such as the opaque role of the military in the economy and inadequate social protection. But other provisions, such as austerity and the sale of state assets, risk harming rights. This is the fourth loan that Egypt has received from the IMF since 2016.”

The Financial Times [in a report](#) published in September of 2022 documents that the number of states seeking financial assistance has reached levels never witnessed before:

“The IMF’s lending to economically troubled countries has hit a record high as the world’s lender of last resort battles simultaneous crises that have pushed at least five countries into default, with more expected to follow. The pandemic, Russia’s attack on Ukraine and a sharp rise in global interest rates have forced dozens of countries to seek IMF assistance. A Financial Times analysis of IMF data shows that at the end of August (2022) the volume of loans disbursed by the fund amounted to \$140bn in 44 separate programs. The figure, which is expected to grow further in the coming months as borrowing costs soar, is already higher than the amount of credit outstanding at the end of 2020 and 2021, when levels reached record annual highs.”

It has become apparent that the burgeoning international debt crisis cannot be resolved under the existing capitalist framework. A new monetary system is needed based upon socialist production and distribution of wealth.

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