

Sri Lanka Trapped into Debt and IMF Sponsored Poverty

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We have taken 16 loans from IMF since 1965, countless IMF officials have been landing & leaving advising every Government on how to manage the economy and yet we remain trapped into debt with no plan to come out. Instead of pruning the military, why doesn't IMF insist on pruning the Govt starting off with reducing unlimited perks of politicians, the useless Provincial Council system along with unnecessary staff before trying to destabilize the national security apparatus of Sri Lanka?

Contrary to IMF claims that it reduces poverty, studies reveal **IMF borrowing countries experience higher rates of poverty via its "reforms" resulting in unemployment, lower government revenue, increased costs for basic services, higher taxes, cuts to pensions & social security.**

Privatization/Sale of SOEs results in sacking of redundant state workers contributing to unemployment falling on the State & raising poverty as well as higher prices for public services (water, electricity etc)

IMF's demand to abolish taxes on repatriation of foreign profits claiming it attracts capital from abroad results in reducing govt revenues & further lowers social spending on the nation's poor. IMF's demand to change labor laws to attract foreign investors also effects unemployment & increase to poverty. Imagine the state of affairs if 150,000 armed force personnel are sacked - this means 150,000 unemployed.

IMF's demand for free trade zones, reduced tariffs & import duties further reduces govt revenues to serve the people. Lifting of Govt-subsidized price controls also raises costs for consumers especially the middle class & poor.

IMF's demand on property rights & other perks for foreign investors is again promoting elite privileges only. A Govt has no choice but to seek more loans but no means to repay as all avenues have been drained by IMF.

It is interesting the players promoting going to IMF.

07th March 2022.

The Monetary Board,
Central Bank of Sri Lanka,
Janadhipathi Mawatha,
Colombo 01.

Dear Members of the Monetary Board,

THE CURRENT ECONOMIC CRISIS

We - a group of concerned citizens writing in our individual capacities - are extremely concerned about Sri Lanka's external financing position.

The adverse effects of the severe foreign exchange shortage are now spilling over into all sectors of the economy and the population. The shortages of fuel, food and pharmaceuticals are resulting in a great deal of hardship for the people, causing considerable social disaffection. Many small and medium-sized businesses are fighting existential challenges, often unsuccessfully. The major corporates, including exporters, who have been relatively insulated to-date, are now facing difficulties in obtaining inputs and moving their goods to markets. This is reflected in the statements issued by their Chambers. Farmers, whose production was affected by the fertiliser ban, are facing challenges harvesting their reduced produce. These developments may lead to instability unless a course correction is undertaken immediately.

A letter addressed to the Minister of Finance, stressing the utmost urgency in dealing with the then emerging crisis, was forwarded under separate cover to the Governor of the CBSL in September 2021 (letter attached).

Meanwhile, the loss of confidence in the Sri Lankan economy has reached a point where it has become extremely difficult to attract any external support other than assistance from India. The expectations reflected in the Road Map, announced on 1 October 2021, have not materialised as anticipated, despite the extensive and diligent efforts of the CBSL.

The data show that the country is in the midst of a foreign exchange crisis, the magnitude of which is unprecedented in Sri Lanka's post-independence history. Five years of usable reserves amounted to USD 800 mn as at the end of January 2022. We believe that these reserves are significantly lower as we write. Meanwhile, according to the CBSL, the pre-determined net drains on foreign currency assets (principal and interest) amount to USD 6.9 bn for the year 2022, with USD 3 bn due in the first three months. The current account deficit, minus interest payments, would also have to be financed over and above this.

These data points demonstrate clearly that Sri Lanka's debt is unsustainable. They also demonstrate that the current path followed by policymakers is unsustainable and if persisted with, will seriously scar the economy and heap severe hardship on the people. The country is confronted with both a solvency and cashflow crisis. None of the information available in the

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public domain gives confidence there are inflows on the horizon that would address the external financing gap in a meaningful manner. In addition, we are of the view that despite the improvements in receipts from exports and tourism, non-debt creating flows would not be anywhere near sufficient in the short-term to avoid a disorderly default in the coming months. The ramifications of a disorderly default for the Sri Lankan economy and its people will be devastating.

Sri Lanka should avoid starving its people of essential imports on the one hand, and a disorderly default on the other. The best option is a managed debt restructuring, combined with a program with the International Monetary Fund and bridge financing from bilateral partners. In our view, the Monetary Board should give the most urgent consideration to this option to address the unprecedented crisis affecting the country. We propose a five-pronged strategy:

- restructuring bilateral and commercial external debt. The process should be initiated with the appointment of restructuring advisers as soon as possible;
- arrangements should also be made to reduce the foreign currency swaps incurred by the CBSL with both external and domestic parties. Swaps are liquidity management instruments; domestic swaps are extremely expensive; and they should not be used to address longer term debt management issues of government;
- a very early approach to the IMF. This would be an essential prerequisite for a coordinated debt restructuring. It would also serve to build confidence in the economy and mobilise additional multilateral and other inflows;
- obtaining bridging finance from friendly bilateral partners to meet payments for essential imports during the time required to complete negotiations with external creditors and the IMF. This bridging finance has become necessary as a consequence of the severe depletion of external reserves; and
- immediate preparation of a plan that will focus upon issues that need to be addressed



consequence, the public debt dynamics have also been deteriorating steadily. It is this weak fiscal position that renders Sri Lanka's debt unsustainable.

Finally, we must also point out that unless the challenges mentioned above are resolved expeditiously, it will have a negative impact on growth. There is even the prospect of the economy experiencing stagflation coupled with rising unemployment.

The Monetary Board can play a crucial role in navigating the extremely challenging way ahead for the Sri Lankan economy and people. We would be happy to discuss the contents of this letter with you, if you deem it useful.

Yours sincerely,

Please refer attached list for Signatories to these representations.

Copies to individual members of the Monetary Board.

We are a group of individuals who have held responsible positions in the Public Sector, Private Sector, Commercial Banks, Trade Chambers, Employers' Federations, Trade Unions, Central Bank of Sri Lanka, and Academia, and are a party to these representations.

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Are we intentionally being kept in debt?

However much the pundits glorifying IMF loans may say, the reality is that money is artificially printed given electronically as SDRs (Special Drawing Rights). Sri Lanka has taken 3,586,000,000 SDRs. These are not currency but countries use them to transact as well as pay back loans even back to IMF.

More & more it becomes clear that Sri Lanka cannot delay formulating a national plan of growth, development where stimulus has to be given to the middle income citizens and austerity has to be implemented for the small segment of rich. The middle class & poor cannot be taxed any more than they have – economic pundits in Sri Lanka must realize this.

In drawing up the national plan, we will have to think of ways that the State apparatus can be both service & profit oriented while benchmarking where cost cutting can and should take place.

Politicians & their families have to wake up to some ground realities – they cannot bathe in riches and luxuries at the cost of the poor and pretend everything is honky dory having agreed to take more loans piling the poor with more debt. Cost cutting for politicians & their families is a must.

The rich & elite need to honestly ask themselves how many pay taxes for all that they enjoy given by the State. The manner companies evade tax, how they are sheepishly taking out their profits & depositing in foreign countries while making a fuss over the need for “good governance” reeks hypocrisy. They too are part responsible for the economic crisis.

The JVP emerged unannounced. The LTTE emerged & flourished with Western-Indian backing. Post-LTTE their sponsors sought revenge from the players that defeated them. So much for their forgive & forget reconciliation mantras. That LTTE ground force is no more does not lessen the threat for the operations of the LTTE fronts together with runaway LTTE have not diminished. Their quest with gun is now quest with pen & the quest to separate Sri Lanka, demands the presence of the Armed Forces.

Contrary to the silly notions of some Colombo elite, the Armed Forces cannot be disbanded & then recalled in an emergency. All of the Colombo elite and pundits would have disappeared if a calamity as that which we experienced with both JVP & LTTE emerges. The Easter Sunday was also a good example that we have another debacle in the horizon. This further requires the presence of the armed forces & intel on call. Let us not forget that the suicide bombers were all rich, educated, socially accepted individuals – therefore we may never know who else is being indoctrinated to become the next suicide bombers. This entails the presence of intel & armed forces to be ready for any unexpected circumstance.

Many may have forgotten that it was the armed forces that ran Public transport, driving trains and buses during JVP/LTTE periods of terror. It was the armed forces that functioned as TV presenters during JVP/LTTE height of terror when they set about killing artists. It was the armed forces that came to the rescue in disaster situation – not the NGOs & foreign salaried Civil Society groups who made dramatic videos & appealed for foreign funds & kept 80% of that funds for themselves & gave away only 20% as “charity”.

That the armed forces & civil defence force also have their own agri units, with storage & transportation was seen during the covid crisis where the armed forces again

came to the rescue to provide vegetables to people, doing a yeomen service. This was immediately stopped as some powers that be panicked thinking the public-armed forces unity was not too good for their agenda. However, what needs to be highlighted here, is that the agri apparatus of the armed forces can and should be strengthened and there is no reason for anyone in particular the LTTE agents or the NGO agents or even IMF to object. What kind of a spineless Govt or Parliament do we elect if they can only bark at the people but worship the enemies?

If the IMF is so concerned about helping Sri Lanka get its house in order - why could they not do so the 16 times that IMF provided assistance to Sri Lanka?

If the IMF is so concerned about corruptions - why are they not going after the corrupt politicians and public officials & demanding they be sacked first?

If the IMF is so concerned about reducing the cost to the state - why are they not looking at the areas where the costs are more?

When the people are all claiming the Provincial Council system is a white elephant, why does the IMF want its continuance instead of asking to close the PC system & with it the staff in it who provide no meaningful service to the people & these roles can easily be handed over to the Local Govts to do. Restructuring of this is essential.

Should we not look at all of the over staffed Govt offices, corporations etc? Should they not be pruned before targeting the armed forces, who are a professionally trained outfit that cannot be trained over night or re-recruited overnight in case of emergency. Unless, this is the whole aim of disbanding the armed forces, with intent to dislocate Sri Lanka's ability to bring reinforcements in the event of a terror situation!

When the entities that seek to prune the armed forces (local & foreign) are key players that supported LTTE terrorism, separatism & disunity in Sri Lanka, it is natural for the sane to wonder what their game plan is. This request to reduce is a carry forward of their demand post-LTTE defeat to confine the military to barracks, close down military camps & remove the military from the North & East. Now their latest sing song is "reduce the military". By now, people should realize the sequence in their demands & the hidden motives behind it.

However, it is baffling that the politicians are in agreement, unless they are threatened to - either prune the armed forces or face pruning their own privileges & perks. Probably, this threat may be hidden from public & that is why they are boldly claiming to agree to IMF demands.

Would these politicians agree to reduce their own security contingents first! Why should their wives, children or their domestics be given military escorts even for private events!

The military men providing security to the extended families certainly should be reduced & instead these men can be used for more important roles, especially in times where strikes take place, they can be used to support essential services. They should also continue their agriculture drive, but that is unlikely to happen because the mafia & their international networks would not want a disciplined army venturing into areas that they cannot influence.

Sri Lanka can certainly get back on its feet, but to do so the cuts have to be done at the right places. What we have is a bunch of people thriving on the poverty of the people & to sustain their livelihoods, people are being unfairly taxed. IMF is simply watching as it

enables the West to fish in troubled waters.

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Shenali D Waduge is a frequent contributor to Global Research.

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