Economist warns of tougher austerity measures from IMF

2016-01-22 10:40:37

Despite the International Monetary Fund (IMF) being rather lenient when it bailed-out Sri Lanka from a balance of payment (BoP) crisis in 2009, a leading economist in the country expects harder austerity measures from the multilateral lender this time, as the government was seen toying with the idea of seeking IMF assistance again.
According to the Executive Director, Dr.Saman Kelegama of the Institute of Policy Studies (IPS), a Colombo-based economic policy think-tank, the IMF was not “that tough” on Sri Lanka during its 2009-2012 US $ 2.6 billion Stand-By-Arrangement (SBA).
This, as he pointed out, was because Sri Lanka approached the IMF soon after the global financial crisis (GFC) in 2008 and the global economies showing signs of recovery in 2010 also bode well for Sri Lanka.
“Specially after the GFC (global financial crisis), the IMF was not that strict in their austerity measures. But I do not think, it will be the case this time,” Dr. Kelegama said at an economic forum organized by Asia Securities (Pvt) Limited.
Sri Lankan Premier, Ranil Wickremesinghe this week re-iterated in Davos, Switzerland that Sri Lanka was seeking an appropriate arrangement with the IMF as the country battles a budget deficit and an uncertain global environment.
Meanwhile, Dr. Kelegama said the IMF is considered as the lender of last resort and the multilateral lender is approached when a country is in crisis or nearing one.
“The IMF is known as the lender of last resort.
We go to the lender of last resort, when we know we have a problem that cannot be easily solved – a crisis situation. So, we are close to that situation and that is why we have approached the IMF,” he remarked.
In such situations, the IMF generally extends loans or stand-by-facilities as they are known for, to countries at lower interest rates but with a number of conditions to put the economy back on track when the domestic reforms have failed to fix the problems or the local mechanisms lack the discipline to do so.
Dr. Kelegama reminded of how the country deviated from the Fiscal Management (Responsibility) Act of 2013, which was intended at brining in much needed fiscal discipline to government’s fund management after the deadly Tsunami in 2004.
“Now, it is an Act without teeth. So, the discipline to the economy coming from an external source with conditions will be the one which will really take some of the main issues of our economy – low revenue, high expenditure, state-owned-enterprises (SOEs) etc. So, basically this boils down to some degree of austerity,” he added.
However, Chairman of the IPS, Professor Razeen Sally told a recent forum in Colombo that 2009-2012 SBA was political and was given under very easy conditions.
“The last government pretended it was reforming and the IMF pretended the government was reforming but it kicked the can down the road,” said Professor Sally, who is also a Visiting Associate Professor at the Lee Kuan Yew, School of Public Policy, National University of Singapore.
According to Dr. Kelegama, Sri Lanka is now an overheated economy. Hence some sort of austerity

measures that come with a traditional IMF package—cutting down on subsidies, increase in taxes, re-structuring of SOEs, getting rid of excess labour through voluntary retirement schemes or golden shake-hand programmes etc.— would cool down the economy. Given the current foreign exchange situation where as much as US $ 4.5 billion payments are due in 2016 with foreign reserves at just US $ 7 billion, Dr. Kelegama said the country would have to seriously consider an IMF package.

Recommended Articles

President calls North to stop consuming alcohol

(http://www.dailymirror.lk/103945/president-calls-north-to-stop-consuming-alcohol)

In his continuing ca...

Sri Lankans not welcome at Mirissa Bay Hotels

(http://www.dailymirror.lk/103515/sri-lankans-not-welcome-a)

Several restaurants ...

Rs. 3,500 more for private sector employees

(http://www.dailymirror.lk/102717/rs-3-500-more-for-private-sector-employees)

The government on Tu...

Duleep Mendis shocked by bribery claims

(http://www.dailymirror.lk/103567/duleep-mendis-shocked-by-bribery-claims)

Former Sri Lankan cr...

SL named top tourist destination for 2016

(http://www.dailymirror.lk/103069/sl-named-top-tourist-destination-for-2016)

Sri Lanka has been n...

Lotus Tower: No added expenses due to construction delay

(http://www.dailymirror.lk/102703/lotus-tower-no-added-expenses-due-to-construction-delay)

Comments - 0