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Debt

Sri Lanka: No agreement with the IMF!

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A Sri Lankan delegation will travel to Washington next week to try to secure up to \$4 billion from the International Monetary Fund and other lenders to help the island nation pay for food and fuel imports as well as stem defaults on its debt. The last time the IMF provided loan to Sri Lanka in 2016, the loan was capped at \$1.5 billion and the program ended prematurely after disbursing \$1.3 billion. This was at a time when the economy was growing at about 5 percent and tourism contributed a similar percentage of gross domestic product.

However, IMF and World Bank loans have always been surrounded by serious controversy. Critics believe that the World Bank and IMF have systematically lent to states to influence their policies. External debt has been and continues to be used as an instrument to subordinate borrowers. Since their creation, the IMF and the World Bank have violated international human rights covenants and have not hesitated to support dictatorships.

In an interview with Sushovan Dhar, Eric Toussaint highlights the potential risks of an IMF bailout...

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Sushovan Dhar: As you know, the Sri Lankan government has announced a default on its debt. What do you think about this?

Eric Toussaint: The Sri Lankan government's decision to suspend the payment of the foreign debt from Tuesday, April 12, 2022, shows how far it has stumbled. The Sri Lankan working people have been on the streets for more than a week protesting against rising prices and anti-social measures. All members of the government resigned except the fact that the Prime Minister and the President remained in office. It is important to note that the Prime Minister and the President are brothers, which is an important factor in understanding how the political system works in Sri Lanka. It is an ultra-neoliberal government, completely in favour of the interests of big business - both domestic and foreign. It is in an attempt to placate the population and also because there is not enough money left in the state coffers and in the foreign exchange reserves that the government has been forced to suspend payments.

In reality, since at least the beginning of the coronavirus pandemic, the debt payments should have been suspended in order to reallocate government spending to tackle the effects of the pandemic, protect the population from the virus and invest in the economy in order to deal with the global economic crisis accelerated by the pandemic. On the contrary, since the beginning of the pandemic, the government has been determined to continue paying off the debt. The debt has continued to mount because the government has financed with new debt a series of measures it was taking to deal with the crisis. It has also used new debt to repay old debts when, as I have just said, it should have suspended the payment of the debt.

A people's government would have suspended debt payments on the grounds that the decision was prompted by external shocks that required the country to protect its citizens. In doing so, the government would have used arguments under international law to avoid paying interest on arrears. Such a people's government would have had to combine the suspension of debt repayment with an audit of the debts reclaimed to Sri Lanka and the policies pursued by the Sri Lankan political ruling classes. An audit with citizens' participation to identify illegitimate debts and the responsibilities of senior officials and leaders in the accrual of illegitimate and unsustainable debt.

On the basis of the audit of the debt, linked to a suspension of payments, a policy of repudiation of the debt should have been pursued. This should have been done, I repeat, within the framework of a new government, since it is the current government that, by following the neoliberal logic, is responsible for the continued accumulation of illegitimate debt.

Sushovan Dhar: In the current circumstances, where foreign exchange reserves are extremely low, the government says it has no choice but to borrow from the IMF. What are we to make of this?

Eric Toussaint: Let's return to the decision made on Tuesday, April 12, and analyze it in a very critical way. Why? Well, firstly, it was taken in consultation with the International Monetary Fund (IMF) and large private creditors like BlackRock. That is, it was in the interest of the creditors that the government suspended the payment. Secondly, it announced that it would agree to pay the interest in full and that its desire was to resume payment of the debt as soon as possible.

Thirdly, the government, in negotiating with creditors, including the IMF, will seek an emergency credit to be able to guarantee the resumption of debt repayment to the IMF, to private creditors and to other creditors. So Sri Lanka will take on new debts to pay off old ones, many of which are illegitimate.

The fourth point of my criticism is that once the government enters into an agreement with the IMF, the IMF will demand fiscal austerity measures that will inevitably make the working classes pay for the adjustment effort and the budgetary austerity effort.

The government with the support of the IMF will try to obtain a reduction in the stock of debt owed to private creditors. This is usually what happens in these circumstances and it is what has happened over the last three years in Argentina. With the "help" of the IMF, the Argentine government renegotiated the debt with private creditors and obtained a very small reduction in the payments to be made. In doing so, it tried to re-legitimize the debt that was illegitimate and should not have been paid. This is what the current Sri Lankan government is about to do and therefore one can only disagree strongly with its strategy.

Sushovan Dhar : If Sri Lanka suspends payment of its debt, wouldn't that be illegal under international law?

Eric Toussaint: I have explained what should have been done at the beginning of the coronavirus pandemic. Now let me turn to what should be done today, instead of what the government is doing. Yes, we need to suspend the debt payments. We must use a series of arguments based on international law, and the justification must not be limited to saying that we do not have enough money to pay. A government that really wants to act in the interest of the population should announce that it is suspending the payment of the debt because there are external shocks that do not depend on Sri Lanka, that reduce the income to the state coffers. External shocks force the country to suspend the payment of the debt. In such circumstances, this suspension cannot lead to an accumulation of interest on arrears, contrary to what the government says. A country like Sri Lanka has the right to suspend debt payments if there are good reasons to do so, including a fundamental change in circumstances. International law allows a country to declare itself in the suspension of payment without its creditors being able to demand the payment of interest on arrears afterwards.

Secondly, an audit of the debts should absolutely be carried out. We must audit the debts issued on the international markets. The holders of these debts must be forced to come forward by a sovereign decision of Sri Lanka. Therefore, the secrecy of the identity of the holders of securities should not be accepted. The audit must also cover the debts claimed by the International Monetary Fund and the World Bank. Here it is absolutely clear that the policies recommended by these two institutions are largely responsible for the accumulation of illegitimate debts and the

application of an economic model that has led the country and the people to disaster. It is very clear that the IMF and other international bodies support the country's corrupt, authoritarian authorities, which are in place because they serve the interests of domestic and foreign big business. China, India, and Washington are so far in favour of keeping this regime in place because it serves the interests of foreign capital and big foreign powers. The local ruling class, which is largely parasitic, also wants the regime to remain in place. This regime does not respect democratic rules, implements anti-social policies and faces clear popular discontent.

The debt audit must be carried out with the participation of social movements. It must result in determining which part of the debt is illegitimate and should not be paid. Generally, the commentators of the Sri Lankan situation, the mainstream press, say that the situation is dramatic because the value of Sri Lankan securities is falling very sharply on the secondary debt market. The secondary debt market is where the holders of Sri Lankan sovereign debt, which could be BlackRock and other investment funds, but also banks, are selling or buying them back. Sri Lankan securities are currently selling at a discount, if I am well informed, of around 60%. Contrary to the idea that the mainstream media is trying to convey, the fact that there is a very large discount on Sri Lankan securities is not at all bad news for the Sri Lankan people or for the working classes. What it does show is that bondholders are worried. They are not sure whether the government will be able to continue to repay the debt, and so this is a good time to cause an even greater fall in the value of the bonds because it would allow a new government to buy back these bonds on the secondary market at a very low price while the payment is suspended. This is what the government of Ecuador did in 2008-2009 and it was beneficial for the country and for the people.

Sushovan Dhar: What is the way out of this debt trap for Sri Lanka or any other country?

Eric Toussaint: What I have just said is in contradiction to the strategy of the government. The government wants to get a loan from the IMF to resume debt payments to the bondholders and sit down at the negotiating table with them and ask them to reduce the value of the bonds by 10 to 20 per cent when it could be reduced by 80 per cent which would be much better for the country. If Sri Lanka resumes payments with the money that the IMF will lend it, the bondholders will be in a strong position. Whereas if Sri Lanka does not take the IMF money and remains sovereign, if it refuses the austerity policies that the IMF is about to mandate, if it continues the suspension of debt payments, it would be in a strong position to demand the bondholders to sell their bonds back to the government at an 80% discount. This is the kind of policy that was followed by Ecuador in 2008 and that resulted in a victory for Ecuador in 2009. There, Ecuador had bought back these securities with a 70% discount but they had bought back on the secondary market part of the securities with an 80% discount, so the discount had been very important. Given the severity of Sri Lanka's situation, with this suspension of payment, they could get a very large write-off on the securities. But I don't think that's possible with the current President and Prime Minister: they are not at all ready to apply this kind of measure, so the question is not just what measures to take, it's who can take these measures? It is a question of popular mobilization. The popular classes should give themselves a new legitimate government and this new government should apply a policy that is totally in line with the interests of the overwhelming majority of society.

If this does not happen in the short to medium term, Sri Lanka will be faced with a debt burden that will increase because of the new loan from the IMF and other loans that Sri Lanka is taking from India, China or other creditors. So Sri Lanka, following the policy of the Prime Minister and the President of the Republic, is going to sink into a permanent and vicious cycle of indebtedness. The adverse effects of the neo-liberal policy will further deepen the fragility of its economy and worsen the living conditions of the majority of the people.

Sushovan Dhar: What do you think of the position taken by around a dozen Sri Lankan economists who claim to be independent ?

Eric Toussaint: This group of around a dozen economists who call themselves independent have published an

op-ed in the Sri Lankan press explaining their vision of what should be done and all the points that are indicated correspond exactly to the type of policies demanded by the International Monetary Fund and the World Bank. One can take their proposals point by point, analyze the agreements made with the various countries, including Sri Lanka, with the IMF and observe that the measures proposed by these so-called independent economists are precisely in line with the nefarious policies that the International Monetary Fund wants.

What these economists propose is also perfectly in line with the interests of the big private creditors, moreover, they suggest calling upon private firms specialized in debt restructuring. These private firms work on behalf of large private creditors and are not at all in the interest of the people who live in the countries forced to pay illegitimate debts. Thus, these private firms offer no safeguards in defending the interests of the people of Sri Lanka.

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