Sri Lanka: Adjusting and adapting in the IMF debtor's prison. Sri Lankan budget 2025

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The debtors' prison that the IMF superintends only permits adaptation and adjustment. Not radical transformation and freedom

The Budget 2025 illustrates the drudgery of making ends meet inside a debtors' prison. The Appropriation Bill for Budget 2025 reveals the fiscal squeeze and constraints imposed by the IMF program and the struggle to set the economy on a developmental trajectory. It also exposes the limitations in IMF rhetoric of "maintaining macroeconomic stability and restoring debt sustainability are key to securing Sri Lanka's prosperity […]" in its third review.

Instead of empowering the Government to upgrade the hardware and strengthen the structural power of the economy – boost industries, restore developmental infrastructure, and elevate skills and technology, the IMF program limits planning and action to the bare minimum and vulnerable sectors like tourism. The Appropriation Bill and, subsequently, the Budget 2025 are early warning signs of the harms of the IMF program. The earliest exit would mean the best for Sri Lanka.

Debtors' prison – the fiscal squeeze

In accordance with the IMF guidelines, the NPP Government is striving to meet a 2.3% primary account balance in 2025. Increasing the Government's revenue to 15.1% of GDP from 11% in 2024 is one initiative to meet the primary Budget surplus. However, the IMF debt sustainability guidelines ensure that the enhancements in Government revenue will not be used for developmental activities and economic recovery but to meet debt servicing obligations. Accordingly, debt sustainability targets that the IMF imposes on the Government's fiscal planning only ensure the sustainability of the creditors.

The Government has capped spending at Rs. 4,290 billion. Interest rate payments will amount to around Rs. 3,000 billion. According to the Governor of the Central Bank, Sri Lanka has to service between $ 4 to 5 billion of debt in 2025. As a result, debt servicing as a share of Government revenue exceeds expenses on social security, public services and investments in the productive economy. A study comparing the debt service obligations of 145 countries in 2024 ranked Sri Lanka 2nd in terms of countries with the highest debt service to revenue ratios in the world (Resolving the Worst Ever Global Debt Crisis: Time for a Nordic Initiative? 2024).

Total debt service as a share of Government revenue in Sri Lanka is 202%. This is not new, either. According to Nicholas and Nicholas (2024), interest payments as a ratio to total government expenditure have risen since 1990. They point out that high-interest payments have played a significant role in increasing the budget deficit.

Countries like Sri Lanka, repaying debts under frameworks facilitated by the IMF, return to the open market when they fall short of funds. Open market debt disbursed at usurious rates – International Sovereign Bonds (ISBs) are not new to Sri Lanka. ISBs are at the heart of Sri Lanka's debt crisis.

Not a bitter pill, but …

Departing from the usual trend, the Budget 2025 will not prescribe bitter pills or tightening belts to the ordinary masses. In contrast to numerous Budgets in the past, Government spending on health, education, agriculture, fisheries, rural development, and plantations has increased.

The Ministry of Health and Mass Media has received the second-highest allocation after the Ministry of Finance, Planning and Economic Development. Compared to the 2024 Budget, there is an increase of Rs. 73 billion for both the health and mass media sectors. Even though the appropriation bill does not reveal how the improved funding would result in infrastructure and capacity development of the public health services to provide better services specifically, it indicates a direction towards improving services.

The increase in spending on education is reflected in the development activities of the Ministry of Education, examination departments, Technical Education and Training, and the University Grant Commission. Budgetary allocation for the Department of Educational Publication remains unchanged, indicating an adjustment between the recurrent and capital expenditures.

The allocation of Rs. 30 billion for the Ministry of Rural Development, Social Security, and Social Empowerment is also substantial. A subject previously annexed with women and child affairs was separated into two distinct ministries under the NPP Government. The issue of rural development and social empowerment, which heavily involved the state apparatus in the 1980s and 90s, was gradually outsourced to NGOs and microfinance companies in the subsequent years. The outcome has been the Microfinance crisis – excessive wealth extraction by the microfinance companies and the proliferation of debt among low-income women. The villages rendered bankrupt and underdeveloped with microfinance need extra support to recuperate. The new ministry could be vital in village regeneration and resolving the microfinance crisis.

Same old road to agriculture modernisation?

The newly amalgamated Ministry of Agriculture, Livestock, Land and Irrigation ranks 8th in terms of the highest allocations of funds. In 2024, the Ministries of Agriculture, Irrigation and Land stood as different ministerial portfolios and received close to Rs. 193 billion. Likewise, the approximate increase in 2025 is Rs. 15.7 billion. Even though it appears insignificant compared to the rise of over Rs. 100 billion, the allocation of funds in a more coordinated and streamlined setting that the current amalgamation offers would lead to more efficient and productive use of funds. In terms of single-department allocation, the Department of Export Agriculture has seen the most noteworthy increase in the capital expenditure provisions.

The impact of enhanced funding will depend more on how the increased funding will restore the capabilities of the small farmers to produce the food people need in Sri Lanka. According to the Monthly Trade Bulletin of the Central Bank, between January and November 2024, Sri Lanka spent $ 397.4 million on importing vegetables. Data from January and February of the same year indicate $ 62.8 million in vegetable import expenses. Import dependence for domestic food needs is harmful not only because it leaks foreign exchange but because it is a source of vulnerability. The breakdown of the supply chains during the COVID-19 pandemic, disruption of food supply, and price inflation of food grains in the backdrop of the Ukraine war underscore the importance of reducing dependence on external markets for domestic food needs. While promoting agri-business-based food production for exports sounds enticing in terms of foreign exchange generation, ensuring food sovereignty domestically to provide healthy food for people has greater development linkages in terms of health, nourishment, and livelihood developments.

According to the World Food Programme's Household Food Security Overview 2023, 24% of households in Sri Lanka are food insecure. Incidents of food insecurity are more prevalent among female-headed households and in the estate sector. According to the same report, people are transforming their cultivation towards food-oriented agriculture to tackle household-level food scarcity. It's the responsibility of the state to identify such trends and support grassroots initiatives.

Security breeds insecurity

Neither the worst economic crisis in Sri Lankan history nor the efforts to recover have posed austerity on either the Budgets of the Ministry of Defence or the Public Security. Both Budgets have grown beyond the budgetary allocations in 2024. While the defence Budget has expanded by Rs. 19 billion, the Ministry of Public Security and Parliamentary Affairs budget has grown by Rs. 35 billion. Department of Police has received the highest allocations. In the Defence Budget, the Army has received the biggest chunk. Even though the defence Budget's prominence has decreased as a share of the net budget compared to 2024, it still represents bloated areas in the public sector.

Interestingly, the advocates of public sector reforms in terms of wage freezing and worker reduction to drive efficiency and reduce the burden on public coffers have refrained from discussing wasteful expenditure, wage bills and unproductive investments within the defence sector. Nor have they prescribed decommissioning and retrenching of the armed forces or defence sector reforms. The bloated defence budget is a burden as it diverts funds from much-needed investments in industries, manufacturing, agriculture, and fisheries, which could drive the economy forward. Also, it diminishes provisions for public goods and social security, factoring in more extensive human security. The public, particularly the working people, has borne a disproportionate burden of economic stabilisation in the form of increased taxes, cuts in social security provisions and public goods.

Diversification within the military into agriculture, tourism, and leisure has created unequal landscapes. It has affected the livelihoods of peasant farmers and small and medium-scale businesses making a living from farming and tourism. Likewise, the armed forces, with steady wages and job security, have created a sense of insecurity for ordinary people. Developments around Aragalaya and other protests of workers, students and distressed people, like in the case of Rathupaswala, point out that the armed forces prioritise preserving the status quo over justice. As a Budget scraping the bottom for funds, expenses on defence should have been rationalised.

Since the war's end and the restoration of stability, defence sector reforms have not been discussed. For subsequent Governments, sustaining a large corpse of armed forces contributed to their own security and enrichment. As the people desire to deviate from that trajectory, it's time to start discussing decommissioning excess military personnel and reorienting them towards civil livelihoods.

A fragile backbone

As explained earlier, the main causalities of IMF's fiscal squeeze are science and technology, industry and entrepreneurship development and trade, commerce, food security and cooperative development. Altogether, these three ministries have only received Rs. 20.9 billion. While the budgetary allocations of the Ministry of Industry and Entrepreneurship Development see an increase of Rs. 4.3 billion, the increase in provisions for the Ministry of Trade, Commerce, Food Security, and Cooperative Development is only Rs. 0.2 billion. The Ministry of Science and Technology's budget has been slashed by Rs. 0.4 billion. Three ministries that could have laid a firmer foundation towards economic recovery, restored market control, propelled value addition, innovation, and driven industrialisation have not received the necessary funding.

Appropriation Bill 2025 signals that the economy’s trajectory would be more or less the same – relying on tourism and services rather than industries. Time after time, Sri Lanka has experienced the dangers of relying on low-end exports, tourism and remittances for foreign exchange. A mere travel advisory can bring Sri Lanka’s tourism industry down. Easter attacks and the COVID-19 pandemic also illustrated the vulnerabilities stemming from the weak structures of the economy. The debtors’ prison that the IMF superintends only permits adaptation and adjustment. Not radical transformation and freedom.

The way forward towards the robust and prosperous economy that people dream of hinges on stronger economic structures and breaking free from the IMF prison.

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