

Dr. Nicholas advises Lanka against swallowing IMF dope

BY SHYAM NUWAN GANEWATTA

The IMF in 2020 told nations around the world that they should maintain a budget deficit to tackle the effects of COVID-19, however, two years later, the IMF insists that this would lead to chaos, Dr. Howard Nicholas, senior lecturer at Erasmus University - Rotterdam, and International Institute of Social Studies - The Hague told *The Island*.

"Obviously, the IMF is playing a game here. If you look at the past, it is obvious that IMF recommendations have not helped countries like Sri Lanka," Dr. Nicholas said, adding that Sri Lanka needed to seriously think about its future.

"Apart from privatising State Owned Enterprises (SOEs) the government is not doing anything. This has not helped the economic development of any country. The IMF says that Sri Lanka must reform its state administration, and there is some truth to this. However, this is no solution to the country's economic problems," Dr. Nicholas said.

Dr. Nicholas said that Sri Lanka must take a path of export-oriented industrialisation. He has been urging successive Sri Lankan governments to take this road for 35 years, Dr. Nicholas said.

"The main reason why Sri Lanka is in crisis is because of the chronic balance of payment issues. Import expenditure was higher than export earnings for 40 years. The trade deficit on average was about 10 percent of the Gross Domestic Product (GDP). The country scraped by with tourism earnings and remittances from workers. However, this wasn't enough, and loans had to be drawn. As you know, whenever there is a global crisis, there is a drop in tourism



Dr. Howard Nicholas

and remittances," he said.

Dr. Nicholas said Sri Lanka had been borrowing heavily from the International Sovereign Bond markets since 2007. The country borrowed over 14 billion dollars from the bond market between 2015 and 2019.

"This had a severe impact on debt sustainability, and then came COVID-19, and everything unraveled. But the root cause of the problem is trade deficits, which started 40 years ago. The problem remains," he said.

The Gotabaya Rajapaksa administration in 2019 implemented a serious tax cut, and that was a disastrous move, Dr. Nicholas said. The Rajapaksa administration had also dramatically reduced interest rates and stopped the import of agrochemicals without a real plan to transform our agriculture, he said.

"His government made a lot of mistakes that led to the shrinking of Sri Lanka's foreign reserves. The government, like everyone else before them, had no interest in boosting import revenue," he said.