Anatomy of the Sovereign Insolvency of Sri Lanka

Muttukrishna Sarvananthan

Key Words: Accountability, Central Bank of Sri Lanka, Corruption, IMF, Sovereign Default.

Author Biography

Muttukrishna Sarvananthan is the Founder cum Principal Researcher of the Point Pedro Institute of Development, Point Pedro, Northern Province, Sri Lanka, established in 2004. The author is a Development Economist by profession and has studied and earned degrees from four universities (Ph.D. Wales, M.Sc. Bristol, M.Sc. Salford & B.A. (Hons) Delhi) in two different countries (UK & India), and has undertaken postdoctoral research work in two universities (Monash University & George Washington University) in two different countries (Australia & USA). Moreover, to date, he has authored or co-authored over 55 peer-reviewed publications (of which, over 30 were in international scholarly journals) https://scholar.google.com/citations?user=CYGaCwQAAAAJ&hl=en&oi=sra, and has been a peer-reviewer of over 35 articles submitted to international scholarly journals published by leading global academic publishers during 24 years of his post-doctorate scholarly career https://orcid.org/0000-0001-6443-0358. Furthermore, he has been an external examiner of Ph.D. theses submitted to the University of New South Wales in Canberra, Australia (2015), and Jawaharlal Nehru University in New Delhi, India (2006). Muttukrishna Sarvananthan is also an emerging academic fraud detective who can be contacted at sarvi@pointpedro.org

Anatomy of the Sovereign Insolvency of Sri Lanka

Abstract

Sri Lanka defaulted on repayment of its external public debt in April-May 2022 for the first-time in its history, and was the first Asian country to do so in the past quarter century. This Working Paper provides an incisive account of the repeated blunders made by successive Governors as well as the Monetary Board of the Central Bank of Sri Lanka (CBSL) since 2006 to date, disregarding the saner counsel by retired senior professional staff of the CBSL, and independent economists and financial analysts. This 'Insight' calls for accountability for the actions and inactions of the Central Bank of Sri Lanka since 2006 to date on the premise that authority and power come with responsibility and accountability.

Background

The sovereign default of Sri Lanka announced on April 12, 2022, and that became effective one month after, was a long time in making; probably since independence from British colonial rule on February 04, 1948. This writer has attempted to uncover the root causes of our 'sovereign predicament' in a series of interviews with international media between January and July 2022; a curated version of which could be accessed here.

Additionally, two peer-reviewed scholarly articles by this author published in 2016 and 2017 forewarned about the impending economic collapse. Although these articles were formally published in academic journals in 2016 and 2017, they were orally presented at the Inaugural Nagalingam Balakrishnan Memorial Lecture in Colombo on June 21, 2014, and at an international conference organised by the Centre for Poverty Analysis (CEPA) in Colombo from 1st to 3rd September 2014, respectively.

The purpose of this Working Paper is to highlight the specific blunders by successive Governors of the Central Bank of Sri Lanka (CBSL) and members of the Monetary Board since 2006 that have led to the current crisis and hold them accountable for their actions and/or inactions over a period of sixteen years (July 2006–April 2022). Authority and power come with responsibility and accountability; i.e. authority/power and responsibility/accountability are two sides of the same coin.

A couple of retired senior Central Bank staff (for example, retired Deputy Governor of CBSL Dr. W. A. Wijewardena, and retired Director of Statistics at CBSL Dr. S. S. Colombage), independent Economists, and many other professionals (for example, Sanjeewa Jayaweera) have repeatedly publicly forewarned the Central Bank and the Treasury of Sri Lanka about their risky and wrongful policies ever since 2006 (if not before). Yet, successive Governors and Monetary Boards have not heeded saner counsel.

This essay offers citations/references that amply demonstrate where the fault lines were and who was directly or indirectly responsible for patently risky and wrong policy decisions.

Global best practices in central banking in brief

The independence of the Central Bank should be sacrosanct in an open market-led economic/monetary system. As a corollary and in a similar vein, the separation of powers between the Treasury/Ministry of Finance and the Central Bank of a country should be sacrosanct in an open market-led economic system, in the same way, the judicial and the executive branches of the state should be independent of each other. The foregoing two cardinal principles are *sine qua non* for an open market-led economic/monetary system (Archer and Bingham, 2009: 5).

The core functions/objectives of any Central Bank, including that of the Central Bank of Sri Lanka (CBSL), are maintaining financial sector stability (through regulation and supervision/monitoring of the banks and non-bank financial institutions), and price/monetary stability (through the regulation and monitoring of demand for and supply of money and the regulation and monitoring of interest rates) (Archer and Bingham, 2009: 5-6). In addition to the foregoing core functions, there are other functions of the Central Bank, such as the custodian of the foreign exchange reserves of a country and regulation thereof, issuing authority of the domestic currency notes and coins, and management of the public debt, *inter alia*. Hence, a Central Bank is responsible for a country's monetary policies ensuring alignment with a Government's fiscal policies (Archer, 2009: 17-55).

On the other hand, the Treasury is responsible for regulating and monitoring the revenue (tax and non-tax) and expenditure/s of the government in office by way of devising appropriate fiscal policies.

The synchronisation of fiscal and monetary policies is a *sine qua non* for the successful management of an open market economy; though easier said than done.

Countdown to sovereign bankruptcy in Sri Lanka

The very first breach of the independence of the Central Bank and the separation of powers between the Central Bank and the Treasury (Moser-Boehm, 2009: 91-101) in Sri Lanka occurred in the late-1990s when Sri Lanka graduated in to lower middle-income country category in 1997 and thereby gained access to borrowings in the private international capital markets. The Secretary to the Treasury was appointed an ex-officio member of the Monetary Board of the CBSL by the then President of Sri Lanka Ms. Chandrika Kumaratunga. Mr. A.S. Jayawardane was the then Governor of the Central Bank of Sri Lanka.

Although Sri Lanka was eligible to borrow from the private international capital markets in 1997, the very first such borrowing was in 2007 through the issuance of an

International Sovereign Bond (ISB) to the value of USD 500 million. The then Opposition Leader and current President of Sri Lanka, Mr. Ranil Wickremasinghe, wrote to the joint lead managers of the debut float (Barclays Capital, HSBC, & J.P. Morgan) in 2007 that a future government of his would dishonour repayment of the same.

After the election of Mahinda Rajapaksa as the President in November 2005, Mr. Ajith Nivard Cabral was appointed as the Governor of the Central Bank in July 2006. It has been the practice to appoint the senior-most Assistant/Deputy Governor to the post of Governor of the Central Bank since its inception in 1950 until President Premadasa appointed Mr. Dissanayaka as the Governor in 1992. Mr. Dissanayaka was a civil servant in the Ceylon Administrative Service (and its successor Sri Lanka Administrative Service) and was a Deputy Secretary to the Treasury prior to his appointment as the Governor of the Central Bank in 1992.

For the first time in the history of the CBSL, a versatile bookkeeper (to the best of my knowledge) assumed the role of Governor of the Central Bank in 2006. This appointment of a person who had scant regard for demonstrated and proven principles of central banking put the integrity of the Central Bank in peril. The decline of the technical competence and integrity of this premier institution was apparent to all but the ruling crony class.

This writer learned that there were deliberate actions taken by the newly appointed Governor to weaken the technical competence and integrity of the Central Bank by way of side-lining senior competent professional staff such as the then Head of Economic Research, Dr. H.N. Thenuwara, and the then Head of Statistics, Dr. Anila Dias Bandaranaike, among others. Such arbitrary and irrational actions by the newly appointed Governor resulted in the premature retirement/departure of Dr. H.N. Thenuwara, Dr. Anila Dias Bandaranaike, Ms. Rose Cooray, and the like from the Central Bank. Governor Cabral wanted a compliant and subservient senior professional staff and a plaint

Monetary Board as opposed to technically competent and upright senior staff with professional and personal integrity.

The year 2006 marked the beginning of severe politicisation of the Central Bank of Sri Lanka (CBSL) never seen before in the history of the CBSL ever since its establishment in 1950. It was not just the beginning of the politicisation of the Central Bank, it was also the beginning of the politicisation of the entire banking and financial sector including the private banks.

The *modus operandi* of such politicisation was as follows. The CBSL under Mr. Cabral utilised the EPF/ETF funds to purchase shares in the two largest private commercial banks. Commercial Bank of Ceylon (Com Bank) and the Hatton National Bank (HNB), and thereby secured memberships in the Board of Directors of such banks to park the retiring senior Central Bank officials such as Assistant/Deputy Governors. For example, Dr. Ranee Jayamaha (former Deputy Governor of CBSL) was appointed to the Board of Directors of the Hatton National Bank, and Mr. Dheerasinghe (former Deputy Governor of CBSL) was appointed to the Board of Directors of the Commercial Bank of Ceylon after their respective retirement from the CBSL.

The foregoing appointments could have caused conflicts of interest. These appointments were professionally unethical, if not illegal. The justices of courts of law are barred from practicing law after retirement in order to prevent conflict of interest during their tenure as judges. In a similar vein, the senior executive staff of the Central Bank should also be barred from working in the financial sector post-retirement.

The aforementioned appointments in the largest private commercial banks were made to influence/encourage those banks to borrow foreign exchange from private international capital markets to lend to the government for its ambitious prestige infrastructure projects, *inter alia*, for what former Governor W. D. Lakshman called the "developmental state". (See the justification for such politicisation of the entire banking and financial sector by Dr. Weligamage Don Lakshman, one of the successors to Governor Ajith Cabral (July 2006-January 2015) and the predecessor to Governor Ajith Cabral (October 2021-April 2022), in 2020. Lakshman, 2020)

Similarly, the CBSL under Mr. Ajith Cabral directed state-owned commercial banks such as the People's Bank and the Bank of Ceylon (BoC), and the state-owned specialised bank, National Savings Bank (NSB), to borrow foreign exchange from private international capital markets to lend to the government for its ambitious prestige infrastructure projects as well as to fund capital expenditures of the state-owned public utilities such as the Ceylon Electricity Board (CEB) and the National Water Supply & Drainage Board (NWSDB), a state-owned enterprise such as the Sri Lankan Airlines, and crude oil purchases of the state-owned Ceylon Petroleum Corporation (CPC). (See, Sarvananthan, 2014, for example)

Such Central Bank-directed external borrowings by state-owned banks, private commercial banks, and state-owned utilities/enterprises between 2006 and 2014, *inter alia*, have undermined the overall financial sector stability, increased the precarity/vulnerability of such semi-government and private financial enterprises, and contributed to the overall volatility of the external public debt portfolio of the country by way of underestimating the real total external liabilities of the government.

Policy milieu of the CBSL during 2006-2022

The government's direct borrowings through the issuance of International Sovereign Bonds (ISBs) and indirect borrowings through state-owned banks (such as syndicated loans) and utilities/enterprises (with and without government guarantee) currently account for over 50% of the total external debt of Sri Lanka. The borrowings by the state-owned banks and utilities/enterprises on explicit government guarantee are called "contingent liabilities" of the government in fiscal parlance.

The ISBs bear the highest interest rates (between 5% and 9% in the international borrowings of Sri Lanka (see, for example, CBSL, 2012) among all the available external borrowing mechanisms (bilateral, multilateral, and private international capital market borrowings) to any country. Moreover, the repayments of ISBs are relatively short-term (5-10 years) without any grace period for the commencement of repayments. However, one advantage of ISBs is that borrower has to pay only the interest payment annually, and the entire capital is repayable only at maturity, which gives some breathing space for the borrower.

Between 2006 and 2019, borrowings in the private international capital markets were the primary mode of external borrowings for successive governments of Sri Lanka, in which borrowings do not require justification or do not come with strings attached (conditional upon economic policy reforms or political governance reforms).

Ironically, certain press releases of the CBSL during 2007-2008 explicitly acknowledged that the proceeds of the ISBs were not only utilised to pay for certain infrastructure projects (such as the Hambantota port and southern highway) but also to retire some of the then-existing domestic debt that bore very high-interest rates (between 15% and 20% or higher) (see a series of articles by this author in *Montage* (current affairs magazine) edited by Frederica Janz at that time for criticisms of such external borrowings of the government/CBSL (unfortunately, we could not access the press releases of the CBSL before 2012 on their website now).

In order to lessen the burden of short-term repayments of the ISBs, *inter alia*, successive Governors of the Central Bank have artificially kept the exchange rates quite stable thereby artificially overvaluing the domestic currency, the Sri Lankan rupee (LKR). This was the key policy blunder that led to the eventual sovereign default of the country in April-May 2022. The Central Bank's frequent interventions in the foreign exchange market to prop up the rupee also contributed to heightened imports of conspicuous consumption goods (including luxury motor vehicles, for example), especially during the period 2010-2019.

By keeping the value of the rupee artificially high by fixing the exchange rate/s for prolonged periods of time (years, not weeks or months) through frequent interventions in the foreign exchange market by the Central Bank, Sri Lanka's exports were artificially overvalued (thereby undermining global competitiveness) in dollar terms, and earnings from tourism were suppressed. These were on top of the loss of the GSP+ facility for exports of goods and services to the European Union (EU) in the early 2010s. However, the GSP facility for Sri Lanka was restored in 2017 but is currently once again under intense review by the EU for the past couple of years.

The severe negative impact of the managed floating exchange rate system practiced by the CBSL (as opposed to free float) is reflected in the fact that the exports of goods & services as a percentage of the GDP in Sri Lanka, in US dollar terms, that was 39% in 2000 and 32% in 2005 fell to mere 17% in 2021 (second lowest since 1960 after just 15% in 2020 due to the pandemic). https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=LK

Were the forgoing of exports and tourism earnings for white-elephant infrastructure projects and retiring of domestic debt rational and prudent management of the external finances of a country? To the best of the knowledge of this writer, no sane government in any country would dare to borrow externally in the private international capital markets to retire its domestic debt in spite of the fact that domestic debt directly contributes to inflation.

In addition to the folly of wanton borrowings through ISBs, the then Central Bank Governor Mr. Cabral, and the then members of the Monetary Board (all political appointees) were singularly responsible for the losses incurred on hedging for crude oil imports and investments in ill-fated Greek Bonds. The then Governor and the members of the Monetary Board have never been made accountable, to date, for such losses to the country. These past impunities have contributed to continued irrational and imprudent policy decisions of the Monetary Board (all political appointees), the chairperson of which is the Governor, that eventually resulted in the sovereign default in April-May 2022.

By the time the Rajapaksa regime lost power in January 2015, Sri Lanka's external debt position had already become precarious. The person who replaced Mr. Cabral as the Governor of the CBSL in early 2015, Mr. Arjuna Mahendran, was once again from the international private sector though much more educated than Mr. Cabral. However, Arjuna Mahendran also lacked professional and personal integrity like Mr. Cabral, which resulted in the Central Bank of Sri Lanka bond scandal. Mr. Arjuna Mahendran was removed from office in 2016 by the then President, Mr. Maithripala Sirisena, and replaced by Dr. Indrajit Coomaraswamy on July 02, 2016. Dr. Coomaraswamy possessed both educational qualifications and professional cum personal integrity to be the Governor of the Central Bank.

Whatever external borrowings made by the government between 2015 and 2019 were almost entirely to make repayments of the external borrowings, especially ISBs, made during the period 2007 and 2014.

The new President elected in November 2019 appointed "Emeritus Professor" W.D. Lakshman as the 15th Governor of the Central Bank effective from December 24, 2019. In spite of being a former "Professor of Economics" at the University of Colombo, Dr. Lakshman lacked the necessary academic qualification/s (specialisation in monetary and/or financial economics) and/or technical skills (practical experience in central banking or in the financial sector) to become the Governor of the Central Bank.

Dr. W.D. Lakshman has NO profile in Google Scholar (which is a globally recognised database of scholarly publications, and citations thereof of academics worldwide) https://scholar.google.com/scholar?as_vis=1&q=Prof.+W.+D.+Lakshman&hl=en&as_sdt=0,5) and his main academic contribution appears to be translating English textbooks in Economics to Sinhala. https://cmb.ac.lk/member/deshamanya-professor-emeritus-wd-lakshman/ Dr. Lakshman has not published a single article in a peer-reviewed international academic journal or any monograph/book by an international academic publisher. In this circumstance, it is baffling to this writer, how could he have been appointed "Professor of Economics (Chair)" in 1982 and "Research Professor" in 1991 at the University of Colombo. He was/is an OVERRATED academic with a doctorate from the University of Oxford being his only intellectual accomplishment. Political bootlicking (*panthangkaraya*), as opposed to the proven track record of research and/or economic policy making, is what propelled him to the post of Governor of the Central Bank.

Dr. Lakshman was/is an ideologue of a bygone era. He was a lifelong critic of international financial institutions such as the IMF, unsuitable to head the Central Bank of an emerging lower-middle-income open economy. Dr. Lakshman was the third worst Governor, after Mr. Ajith Nivard Cabral and Mr. Arjuna Mahendran, the Central Bank of Ceylon/Sri Lanka has had in its entire history, though the former is professionally an honest person as opposed to the latter two. Dr. Lakshman's lifelong pathological aversion to the International Monetary Fund (IMF) played a critical role in Sri Lanka's procrastination to seek an IMF bailout.

By the time Dr. Lakshman was appointed the Governor in the closing days of 2019, Sri Lanka was shut out of the private international capital markets because of the repeated negative reports about the precarity of Sri Lanka's sovereign bonds by global credit ratings agencies such as the Fitch Group, Moody's, and Standard & Poor (S&P) Global Ratings. Therefore, since the beginning of 2020, the CBSL was forced to borrow only locally in addition to several ad-hoc short-term currency swaps with Bangladesh, China, and India, a few bilateral credit lines from China and India, and one-off loans from Japan (US$ 500 million) and South Korea (US$ 200 million).

Money printing & Modern Monetary Theory (MMT)

Ironically, whereas a Central Bank's role is to be a lender of LAST RESORT to the government, under the governorship of Dr. Lakshman the CBSL became the lender of FIRST RESORT to the government by buying unprecedented levels of government securities, which literally meant printing money.

While the dogmatic/theoretical inspiration for printing unlimited money is drawn from the fallacious Modern Monetary Theory (MMT), the practical lessons Dr. Lakshman cites are from Japan and the Newly Industrialised Countries (NICs) such as South Korea and Taiwan in the aftermath of the World War II, which he dubbed as "developmental states".

Dr. Lakshman, during his academic days, has publicly accepted corruption as a necessary evil during any country's early stages of "take-off", citing rampant corruption in Korea and Taiwan during their take-off period. I remember him juxtaposing corruption and successful developmental states as a classic chicken and egg conundrum at a public seminar held at the Dr. N. M. Perera Centre in Colombo several years ago, in which this writer was a co-panellist.

It is true that Japan, Korea, and Taiwan were developmental states (as opposed to market-driven states) during the early stages of their "take-off". However, the global political and economic context during the immediate and medium-term post-World War II (i.e. 1950s, 1960s, & 1970s) period wherein victorious western powers regarded the aforesaid countries as bulwarks against communism raging throughout East and South East Asia did play a pivotal role for the resurgence of Japan as an economic powerhouse and the emergence of the so-called tiger economies (ala Korea and Taiwan). Hence, just because Korea and Taiwan were "developmental states", Sri Lanka, for example, cannot emulate those "economic miracles", through a developmental state. This writer would argue that third-world countries like Sri Lanka need what Prof. Rainer Kattel, et al, call an "entrepreneurial state".

Two underlying cardinal principles of MMT are that as long as the public debt is denominated in domestic currency, a government need not worry about unlimited domestic borrowings because domestic currency could always be PRINTED thereby avoiding a public debt default (i.e. states have "monetary sovereignty"), and that unlimited money printing DOES NOT cause inflation. Both are fallacious according to mainstream economic science in general, and monetary theory in particular. (see, for example, Coats, 2019; Drumetz and Pfister, 2021; Hartley, 2022; Palley, 2020; Prinz and Beck, 2021)

In his oration to mark the 70th-anniversary of the establishment of the Central Bank of Ceylon/Sri Lanka on August 28, 2020, Governor W.D. Lakshman promoted the idea of developmental central banking, deviating from the core functions/objectives laid out in the Monetary Law Act of 1949 and amendments thereof made in 2002. Implicit in his 70th-anniversary oration was the justification for the unlimited printing of money. Dr. Lakshman has been strenuously denying publicly that the printing of money causes inflation. One of Dr. Lakshman's former students at the University of Peradeniya and later a lecturer in political economy at the same university (long retired), Sumanasiri Liyanage, publicly supported the printing of money by the Central Bank in January 2021.

Ajith Cabral, who once again functioned as the Governor of the CBSL between October 2021 and April 2022, propagated the myth in April 2021 that money printing does not cause inflation parroting the then Governor Lakshman. During the previous stint of Governor Cabral (at the CBSL) between 2006 and 2014, Dr. Lakshman was an "Adviser" at the Ministry of Finance. Mr. Cabral had a history of shouting/shooting down negative reports by international credit rating agencies on Sri Lanka's creditworthiness since 2007 to date.

The over-stock of money in the market (as a result of money printing by the central banks worldwide), in the absence of a commensurate rise in production (primarily due to lack of demand), depreciates the domestic currencies resulting in hyper-inflation (including food inflation). In Sri Lanka, in the 21-month period between January 01, 2020, and September 30, 2021 (during Governor Lakshman's tenure), due to excessive money printing by the Central Bank, the stock of money rose by 38% (i.e. by LKR 2.9 trillion) whilst the GDP grew only by just 1%. This has caused inflation to rise to over 11%, and food inflation rose to over 18% in November 2021. These have seen steady rises ever since; resulting in the overall inflation, in terms of the Sri Lanka Consumer Price Index (SLCPI), at its peak of 74% in September 2022, and the food inflation at its peak of 86% in September 2022. During the last quarter of 2022, however, both the overall inflation as well as the food inflation have begun to decelerate.

Both Cabral and Lakshman have unrepentantly deviated from the holy grail of central banking, i.e. policy-making in the interest of the "public" as opposed to policy-making in the interest of the government in power or the politicians. The poor performance of Dr. Lakshman as Governor of the Central Bank is emblematic of the poor standard of economic professors in Sri Lanka in particular, and the poor pedigree and pedagogical practices of Sri Lankan academics in general. The tertiary-level economic curriculum in Sri Lanka requires urgent and substantial revision and upgrading from outdated and irrelevant content.

Theories of physical sciences are not subject to political or social circumstances, contexts, situations, or territories; that is, the outcomes of physical sciences theories are universal. In contrast, the outcomes of macroeconomic policies/theories vary according to the political and social circumstances, contexts, situations, and territories.

Thus, the right macroeconomic policies should be adopted taking into consideration of the individual political and social circumstances, contexts, situations, and territories. Just because advanced industrial countries were printing unlimited money for prolonged periods of time during the pandemic, any developing country cannot afford to print unlimited money for an indefinite period of time to revive its pandemic-affected economy.

Lessons to be learned from sovereign bankruptcy of Sri Lanka

It is high time the proposed new Monetary Law Act (MLA) in Sri Lanka explicitly and clearly defines the qualifications and experiences required for the post of Governor of the Central Bank, members of the Monetary Board, and the members of the Stakeholder Engagement Committee (SEC). The SEC was established in July 2022 amalgamating the former Monetary Policy Consultative Committee (MPCC) and the Financial System Stability Consultative Committee (FSSCC). Moreover, the post of Governor and memberships in the Monetary Board and the Stakeholder Engagement Committee should be openly advertised and recruited and NOT arbitrarily appointed by the President of the country and/or the Governor of the Central Bank (in the case of appointments to the Monetary Board & SEC).

While the independence of the Central Bank is a *sine qua non*, there should be necessary checks and balances to prevent abuse of power, corruption, nepotism, and the like in the Central Bank of Sri Lanka in the recruitment of staff, consultants, etc, and transparency in the policy-making and decision-making processes. Moreover, the Central Bank's frequent paternalistic diktats to the commercial and specialised banks (including to the private ones, let alone the state-owned banks) and unnecessary interferences in the financial sector in general (under the euphemism of "moral suasion") should be tamed (if not done away with) in the proposed new Monetary Law Act (MLA). Every single public authority (e.g., Central Bank Governor, Treasury Secretary, Monetary Board) in Sri Lanka should be made accountable and responsible not only to the parliament, government, and the executive in power, but more so to the general public as well.

Sri Lanka cannot emerge out of the current economic quagmire without broader financial sectors reforms such as divestiture of the state-owned commercial banks (e.g. People's Bank and Bank of Ceylon) and specialised banks (e.g. National Savings Bank) which function as captive sources for funding public debt (both domestic and external) as well as funding perennially loss-making state-owned utilities (Ceylon Electricity Board (CEB), Ceylon Petroleum Corporation (CPC), National Water Supply & Drainage Board (NWSDB)) and enterprises (Sri Lankan Airlines, Sri Lanka Railways, Sri Lanka Transport Board, Road Development Authority, etc).

According to a report of the Committee on Public Enterprises (COPE) of the parliament of Sri Lanka, state-owned banks (i.e. Bank of Ceylon & People's Bank) have complained that they have been repeatedly ordered by the Central Bank to fund the CPC and CEB during 2020-2022. Moreover, in the investigations into the Central Bank of Sri Lanka bond scam of 2015, it was revealed how the CBSL coerced the People's Bank to back off from bidding. The forensic audit report of the CBSL in the aftermath of the bond scam of 2015 is yet to be made public. This kind of non-transparency cannot assuage the domestic markets or potential foreign investors.

The state-owned banks have also become primary lenders to unscrupulous politicians from all political parties, especially members of parliament and deputy/ministers, who are involved in a variety of businesses such as owning liquor shops and fuel stations throughout the country and involved in construction projects (public works) for public and quasi-public authorities.

We understand that one of the conditions the IMF has put forward for its proposed bailout of Sri Lanka is the enaction of strong anticorruption legislation by the parliament. This is just a cosmetic exercise. There are enough laws in Sri Lanka already to arrest corruption; what is lacking is the political and/or administrative WILL to enforce such laws or the law/s are applied only selectively to penalise the political opposition.

In addition to any new legislation, the IMF should insist that an international forensic audit of the personal finances (bank accounts, movable & immovable property, income tax filings, etc) of each and every member of parliament (including both government and opposition) and their extended family members, and each and every public servant (especially executive grade, including armed forces personnel) and their extended family members should be carried out and appropriate legal actions are taken if their wealth and income cannot be accounted for or justified. Apparently, it is reported that a similar condition has been imposed by the IMF on Pakistan.

Even today, under a new Governor and management, some of the actions of the Central Bank of Sri Lanka smack of duplicity and double standards in law enforcement as reflected in the recent permanent "revocation" of the license of the Prasanna_Money_Exchange_Pvt_Ltd and merely a temporary "extension of the suspension" of the trading of Perpetual Treasuries Limited, which was the executor of the Central Bank bond scam of 2015. It is important to note here that the Perpetual Treasuries is owned by the son-in-law of the then (2015) Governor of the Central Bank, Mr. Arjuna Mahendran.

If Angola, where the Supreme Court in December 2022 ordered the seizure of $1 billion worth of assets of the daughter of the former President and freedom fighter Jose Eduardo dos Santos, and Mozambique, where the Maputo City Court in November 2022 found a son of the former President and 18 other "high profile defendants" guilty of $2 billion illicit foreign loan with a government guarantee that bankrupted the country could do it, why not Sri Lanka?

Although in principle we welcome the public appeal by 182 academics worldwide on January 08, 2023, urging the hedge fund holders of International Sovereign Bonds (ISBs) of Sri Lanka in particular, and of all the third world countries in default in general, to cancel the debt, in practice, any such debt cancellation initiative should be conditional upon barring all those politicians, bureaucrats, and professionals who were responsible for the sovereign default (by their actions or inactions) and who were directly or indirectly involved in the Central Bank bond scam and other mega corruption from holding any public office hereafter. If not, any unconditional and unilateral debt cancellations would become a moral hazard for countries such as Sri Lanka.

References

Archer, David, 2009a, Roles and objectives of modern central banks, Chapter 2 in *Issues in the Governance of Central Banks: A Report from the Central Bank Governance Group*, Basel (Switzerland): Bank of International Settlements. https://www.bis.org/publ/othp04.pdf

Archer, David, 2009b, Decision-making structures, Chapter 4 in *Issues in the Governance of Central Banks: A Report from the Central Bank Governance Group*, Basel (Switzerland): Bank of International Settlements. https://www.bis.org/publ/othp04.pdf

Archer, David, and Bingham, Gavin, 2009, The main tendencies in modern central banking, Chapter 1 in *Issues in the Governance of Central Banks: A Report from the Central Bank Governance Group*, Basel (Switzerland): Bank of International Settlements. https://www.bis.org/publ/othp04.pdf

Bank of International Settlements, 2009, *Issues in the Governance of Central Banks: A Report from the Central Bank Governance Group*, Basel, Switzerland. https://www.bis.org/publ/othp04.pdf

Cabral, Ajith Nivard, 2014, Practical, not conventional, wisdom has driven Sri Lanka's rebuilding and reconciliation, *Forbes Magazine*, March 28. https://www.forbes.com/sites/realspin/2014/03/28/practical-not-conventional-wisdom-has-driven-sri-lankas-rebuilding-and-reconciliation/?sh=6726de9717cd

Coats, Warren, 2019, Modern Monetary Theory: A Critique, *CATO Journal*, 39(3), Fall. DOI: 10.36009/CJ.39.3.4 https://www.cato.org/sites/cato.org/files/2019-09/cj-v39n3-4.pdf

Drumetz, Françoise and Pfister, Christian, 2021, Modern Monetary Theory: A Wrong Compass for Decision-Making, *Intereconomics*, 6, November-December, 355-361. ZBW – Leibniz Information Centre for Economics. DOI: 10.1007/s10272-021-1014-5 https://www.intereconomics.eu/pdf-download/year/2021/number/6/article/modern-monetary-theory-a-wrong-compass-for-decision-making.html

Hartley, Jonathan, 2022, The weakness of Modern Monetary Theory, *National Affairs*, 53, Fall. https://www.nationalaffairs.com/publications/detail/the-weakness-of-modern-monetary-theory

Lakshman, Weligamage Don, 2020, Central Banking in the Sri Lankan Developmental State, August 28, 70th Anniversary Oration of the Central Bank of Sri Lanka. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/speech_20200828_70th_anniversary_oration.pdf

Liyanage, Sumanasiri, 2021, MMT: What's wrong with printing money? *Financial Times*, January 04, Colombo, Sri Lanka. https://www.ft.lk/Columnists/MMT-What-s-wrong-with-printing-money/42-711087

Moser-Boehm, Paul, 2009, Relations with government, Chapter 5 in *Issues in the Governance of Central Banks: A Report from the Central Bank Governance Group*, Basel (Switzerland): Bank of International Settlements. https://www.bis.org/publ/othp04.pdf

Palley, Thomas, 2020, What's wrong with Modern Money Theory: macro and political economic restraints on deficit-financed fiscal policy, *Review of Keynesian Economics*, 8(4), Winter, 472-493. https://doi.org/10.4337/roke.2020.04.02

Prinz, Aloys L., and Beck, Hanno, 2021, Modern Monetary Theory: A solid theoretical foundation of economic policy? *Atlantic Economic Journal*, 49, 173-186. https://doi.org/10.1007/s11293-021-09713-6

Sarvananthan, Muttukrishna,2017, Development Outcomes of Old and New Sources of International Development Finance in Sri Lanka, *Journal of Developing Societies*, 33(4), 488-516. http://journals.sagepub.com/doi/abs/10.1177/0169796X17735241

Sarvananthan, Muttukrishna,2016, Elusive Economic Peace Dividend: all that glitters is not gold, *GeoJournal*, 81(4), 571-596. http://link.springer.com/article/10.1007/s10708-015-9637-3

Sarvananthan, Muttukrishna, 2014, Illusory Economy versus the Real Economy of Sri Lanka: A Rejoinder to the Governor of the Central Bank of Sri Lanka, *Ceylon Today*, April 10.https://docs.google.com/document/d/1jSY81CmYvMwQSJ-_z9J5OXyFXuTax9ZWPU5nPZyUMY8/edit
http://www.ceylontoday.lk/91-61092-news-detail-illusory-economy-versus-the-real-economy-of-sri-lanka.html

Sarvananthan, Muttukrishna, 2007 & 2008, *Montage*: current affairs magazine. https://docs.google.com/document/d/1vCuAxDR7JGBB6pMD7EuDQ-8ppoChlPeBAvjftytSxsQ/edit
https://montagesl.wordpress.com/