Sri Lankan budget reveals an acute financial crisis

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The Sri Lankan budget for 2003, presented to parliament last week, provides a picture of an economy in acute crisis—the product of declining exports, falling foreign investment and the ravages of nearly two decades of civil war. To shore up its own precarious financial position, the United National Front (UNF) government has announced a series of new burdens on the working class, even as it hands out concessions to business.

The estimates presented by the Finance Minister K.N. Choksy showed an expected revenue of just 339 billion rupees (about $US3.5billion), of which 327 million rupees will be used to make loan repayments. The UNF blames the previous Peoples Alliance (PA) government for the high levels of public borrowing but much of it was to finance military purchases that the UNF supported.

The country's huge public debt now stands at 105 percent of gross domestic product and will grow even further. According to the budget figures, expenditure for 2003 will be 649 billion rupees leaving a massive deficit of 310 billion rupees, which will be covered by more public borrowings. In the long term, however, the debt is simply untenable, which is one reason why sections of big business have been pressing for an end to the war.

A ceasefire is in place and the second round of peace talks between the government and the Liberation Tigers of Tamil Eelam (LTTE) has just concluded in Thailand. But the figures for the defence budget indicate that the UNF is prepared for war if the LTTE does not agree to its demands. Defence spending will be 50.2 billion rupees this year and 50.4 billion rupees next year, as compared to 51 billion rupees in 2001 when intense fighting was still taking place.

Many of the austerity measures contained in the budget were dictated by the International Monetary Fund (IMF) as part of the terms for the release $US64 million in loans under Standby Arrangement in September. The IMF had suspended the facility last year.

The burden will fall heavily on working people. While the rich are to receive generous tax concessions, the majority of the population will be hit by a series of new indirect taxes. As part of the package insisted upon by the IMF, the government will extend the Value Added Tax (VAT) of 5-10 percent to virtually even item of wholesale and retail trade. Only crude oil and wheat will be exempt. Other levies, such a road tax, will push up prices even further. Over the last year, the cost of living index has risen by 8 percent from 2,936 to 3,175 in October.

The government's meagre welfare program known as Samurdhi, on which the poorest layers of society depend, will be slashed by 3 billion rupees. Fewer families will now receive the monthly allowance, which is limited to a maximum of 750 rupees [$US8], depending on family size. Contemptuously dismissing the hardship that will be caused, Choksy declared: "[E]xperience has proved that mere handouts for subsistence and state subsidies are not the answer."

The government has also announced a further major downsizing of the public sector, which will cut expenditure by 1.5 billion rupees. "[W]e are rationalising the public sector cadre by eliminating the duplication of functions and not filling vacancies unless essential," Chosky said.

Under a new state pension scheme, employees will have 8 percent deducted from their salaries to help fund pensions. The proposal effectively amounts to a wage cut for public sectors workers, many of whom are struggling to survive on monthly earnings of 5,000 rupees [$US55] or less.

Under pressure from the IMF and World Bank, the government plans to accelerate its privatisation of state enterprises in order to raise 14 billion rupees to help close the budget deficit. Though the finance minister only referred to the sale of the remaining shares of Telecom and the Insurance Corporation, the government has plans to restructure the Petroleum Corporation, state banks, the Electricity Board, ports and railways. These measures will inevitably lead to further job cuts.

While slashing the living conditions of the working class and poor, the government has not hesitated to provide generous perks for the rich. Chosky announced a reduction in the tax rate from 35 to 30 percent for large companies with taxable annual incomes of more than 5 million rupees. It is estimated that the measure will cost the government 2 billion rupees in annual revenue. Last year the tax rate for companies with an income of less than 5 million rupees was cut to 20 percent.

The finance minister announced a five-year tax holiday for new venture capital companies. In a desperate move to attract foreign capital, the government will also offer another "incentive package" with tax holidays ranging from 3 to 10 years for some categories of investors setting up in free trade zones.

In March, the government predicted that economic growth for the year would be 4 percent. In his budget speech, Chosky revised the figure down to 3 percent but predicted "record growth" of 5.5 percent next year. He went on to say, however, that there were "significant risks associated with world economy". "The recovery of major economies is fragile. Any setback would be damaging to our export market," he declared.

For the first eight months of this year the foreign trade deficit was $US866 million and there was a 9 percent decline in exports. Indicating a nervousness about the US plans for war on Iraq, Chosky warned that the economy is "vulnerable to sharp increase in oil prices." Sri Lanka has to import all of its oil requirements.

The Ceylon Chamber of Commerce (CCC) has cautiously endorsed the budget, saying that it was announced as the country is "emerging from a 19-year conflict" and a "large debt burden." Other employer groups complained that the government had not gone far enough in slashing the conditions of workers. Ceylon National Chamber of Industries chairman Ranjith Hettiarachchy criticised the government for not announcing a decrease in the number of public holidays—a longstanding demand of business—and further measures to increase productivity.

The budget underscores the significance of the present peace talks with the LTTE. With the backing of sections of business, the UNF government is seeking to end the war and enlist the LTTE as a junior partner. Government and LTTE negotiators are due to attend a meeting of donor countries and organisations in Oslo later to tout for international aid and capital for Sri Lanka. In seeking investment, however, both sides are well aware that they will have to guarantee to suppress any opposition to the IMF-dictated austerity measures.