Sri Lankan government treads a fine line over the budget

K. Ratnayake
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The Sri Lankan government presented its budget last week under conditions of an acute political crisis triggered by President Chandrika Kumaratunga's autocratic moves in early November, including the suspension of parliament. The ruling United National Front (UNF) was due to bring down its budget on November 12 but was only able to do so on November 19, when parliament reconvened.

The budget session began with a controversial ruling by the speaker, which was repeatedly interrupted by opposition MPs, declaring that Kumaratunga's action in proroguing parliament for two weeks was unconstitutional. Both the UNF and Kumaratunga's coalition, the opposition Peoples Alliance (PA), were seeking to use the parliamentary sitting to shore up their political support.

The budget presented by Finance Minister K.N. Choksy was a careful balancing act, reflecting the tense political situation. On the one hand, the government made a series of small concessions in a bid to neutralise the growing popular disaffection over soaring inflation and deteriorating living standards and to counter opposition criticism. All of this was dressed up as being part of the "peace dividend" flowing from the ceasefire signed last year between the government and the Liberation Tigers of Tamil Eelam (LTTE).

On the other hand, the main thrust of the budget was to continue the drastic economic restructuring of the past two UNF budgets, as demanded by foreign investors and big business. This is the real purpose of the so-called peace process—to end the country's civil war and transform Sri Lanka into a cheap labour haven oriented to taking advantage of business opportunities opening up on the Indian subcontinent. While trumpetting the budget's meagre handouts for voters, Choksy quietly reaffirmed the government's commitment to slashing public spending through privatisation and cuts to jobs and services.

One of the government's most anticipated concessions was to public sector workers. The budget granted the first pay rise since the UNF came to power in December 2001—an increase of 10 percent, or 1,250 rupees ($US13) a month, whichever is higher, as of next January. It also augmented government pensions by 10 percent—an average rise of just 800 rupees a month. The increases do not even compensate for the cost of living rise since December 2002—the index has jumped 315 points, or 10.5 percent, from 2,984 to 3,299 in October 2003.

A new round of price rises is set to take place following the government's changes to the value added tax (VAT) on consumer goods. Previously, goods fell into two VAT bands of 20 percent and 10 percent. Next year all goods will be taxed at the one rate of 15 percent. The government claims that the change will not affect overall prices as rises will be balanced by falls. However, the measure will mean a 5 percent increase in the cost of basic items, including gas and petroleum products and food items such as sugar and milk products.

The budget also aimed to appease farmers who were hard hit by cuts to fertiliser subsidies in last year's budget. The price of a 100kg bag of urea, for instance, more than doubled overnight from 350 to 875 rupees. The latest budget reduced the rise by 150 rupees. The government also announced plans for state banks to recycle the debts of farmers for six crop seasons at a low interest rate of 4 percent.

With an eye to lower middle class voters, the Finance Minister increased the taxable income threshold from 240,000 to 300,000 rupees. In last year's budget, monthly interest on bank accounts was subject to tax if it exceeded 9,000 rupees. Under the present proposals, the threshold of taxable interest income was raised to 25,000 rupees.

In the name of fighting poverty, the budget allocated 800 million rupees ($US8 million) for the construction of low-cost housing. It also proposed to provide up to 125,000 poor families with sheets of corrugated asbestos, to enable them to build their own shelters as part of a "self-aided program".

These limited measures will do little to boost living standards or alleviate poverty. Their purpose is to try to dampen widespread discontent.

In September, 80,000 health sector workers went on strike for 16 days demanding a pay hike. Other public sector workers, including non-academic university staff as well as railway, postal, electricity and water resources employees, have been engaged in strikes and other protests to demand salary increases. In the rice-growing north central province, farmers have been engaged in continuous protests against subsidy cuts and other attacks.

The relief offered by the budget to workers and farmers is insignificant in comparison to the scope of the economic restructuring measures being proposed. The government is putting in place a voluntary retirement scheme that aims to slash 100,000 public sector jobs over the next year. By 2006, another 200,000 workers will be retrenched under the same scheme.

Privatisation is being accelerated. From November 2002 to August 2003, the government earned 10 billion rupees from the sale of state ventures to private sector. In the next year, it plans to collect another 13 billion rupees from further privatisations. Choksy explained that the lucrative petroleum sector will be restructured and, in coming months, the remaining transport boards are to be privatised.

The limited character of the government's concessions is also underscored by the fact that the budget deficit is projected to decline over the next three years. It amounted to 7.8 percent of gross domestic product (GDP) in 2003 and will be cut to 6.8 percent in 2004 and 5 percent by 2006.

Further inroads have been made into the allocations for public education and health, which were cut by 2,089 million rupees and 133 million rupees respectively from already low levels. Under the UNF government, education expenditure has declined from 2.6 percent to 2.3 percent of GDP over the past year, while health spending has fallen from 1.6 percent to 1.5 percent of GDP.

Although the government is engaged in a "peace process," spending on defence will increase from 67,386 million rupees in 2003 to 70,105 million rupees. The huge military spending is not only in preparation for any breakdown in the negotiations with the LTTE but is aimed against the working class. During the health workers' strike, the government deployed troops in the hospitals. Defence spending exceeds the combined allocation for public education and health.

The other area of major government spending is infrastructure, as part of its "Regaining Sri Lanka" plan to attract foreign investment. The budget has allocated 110 billion rupees to infrastructure projects, including roads, water supply, electricity and construction, most of which will be contracted out to private businesses. Foreign direct investment has already jumped from $US80 million in 2001 to $US230 million in 2002.

Choksy revealed that of the 32,000 private companies registered in the country, only 9,000 filed income tax returns and just 2,850 paid any income tax. He proposed an Economic Service Tax of one percent on companies with an annual turnover of 10 million rupees, or total assets of 10 million rupees, that have been in operation for more than two years. He also instituted a 15 percent tax on profits made in the Colombo stockmarket, which has soared over the past two years.

Undoubtedly, corporate chiefs would have preferred not to have even these nominal taxes or the small concessions made on wages and services. But most business groups welcomed the budget, realising the difficult political situation facing the government. The Federation of Commerce and Industries in Sri Lanka issued a press release declaring that it was pleased its proposals had been considered. The Ceylon Chamber of Commerce praised the budget, saying it was a "meaningful and realistic plan to take the economy forward."

Significantly, the IMF's resident representative Jeremy Carter was also cautious in his comments. He said it was not "a radical budget but a sensible one which seems to have been well accepted". Carter insisted on the need for further restructuring, warning that "the size of the public sector is large and must be addressed".

Hoping to capitalise on popular discontent, the opposition parties have criticised aspects of the budget, pointing out that it will do little to help ordinary working people. But the program of the Peoples Alliance is no different to that of the UNF. During the PA term in office from 1994 to 2001, Kumaratunga jettisoned her election promises and embraced the demands of the IMF and World Bank for privatisation and "market reform," which are being continued by the present government.