Sri Lankan government announces a phoney "pro-poor" budget

Saman Gunadasa
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The new Sri Lankan government brought down the 2006 budget last Thursday—for the second time in less than a month. The latest version, which includes limited increases in welfare programs, rural subsidies and public sector salaries, is another crude attempt to bolster the political fortunes of the ruling coalition—the United Peoples Freedom Alliance (UPFA).

Just nine days ahead of the November 17 presidential election, Mahinda Rajapakse, then prime minister and UPFA candidate, insisted that the government present the budget. Its measures were an obvious ploy aimed at boosting his prospects in what was clearly going to be a close result.

Having scraped into office by the narrowest of margins, Rajapakse, now president and also finance minister, has presented a new budget, saying it is more in line with his "vision". In reality, he is trying to shore up the minority UPFA government and his own Sri Lankan Freedom Party (SLFP), which have so little credibility among broad masses that even his electoral allies—the Janatha Vimukthi Peramuna (JVP) and Jathika Hela Urumaya (JHU)—have refused join the cabinet.

The announced budget measures include: the reduction of fertiliser prices from 650 rupees to 350 rupees per 50 kg bag; a 1,300 rupee [$US13] increase in the monthly salary of public sector workers; a 500 rupee increase for pensioners; a 50 percent increase in welfare payments; milk for children under the age of five; a midday meal for students in disadvantaged schools; and a 1,500 rupee monthly allowance for children affected by the tsunami. The budget retains a series of financial and tax concessions for farmers and small-scale businesses.

Rajapakse declared that the budget was to help the poor, in line with his election manifesto. "[P]overty is too high and it has been there for too long in our country," he said. "The development is Colombo-centred. There is hardly any growth in some provinces... The aim of our government is to increase the income of the poor and regions at a far more rapid pace than that achieved in the last several decades."

However, the "pro-poor" rhetoric falls far short of reality. Even if fully implemented, the budget will fail to meet Rajapakse's own election promises, let alone substantially improve the living standards of nearly half of the population who live on less than $US2 a day.

* Instead of a promised 4,000 rupees a month in Samurdhi or welfare payments, recipients will receive an increase of only 50 percent—from a maximum benefit of 1,000 to 1,500 rupees.

* Rajapakse pledged to create 200,000 jobs in his first year alone. The budget plans to establish only 10,000 jobs for graduates and 50,000 for other young people in 2006. Another 50,000 jobs will be provided in 2007. The jobs created for graduates and young people by the UPFA government over the past year were low paid and temporary. Some were made permanent, just prior to the election.

* The budget has provided a small allowance for the children of families affected by the tsunami but is deliberately vague about other assistance. Hundreds of thousands of people lost their homes, livelihoods and possessions as well as local schools, hospitals and other facilities. The vast majority has received little or no financial aid.

* The budget has increased subsidies for fertilisers but done little else to assist farmers. While a guaranteed price of 16.50 to 17.50 rupees per kilogram of rice was announced, the government has allocated only two billion rupees—only enough for less than 10 percent of the country's rice production.

* Public sector workers will receive a 1,300-rupee increase in their monthly salary, substantially less than the 3,000 rupees promised. Private sector workers—the majority of the workforce—will receive nothing.

* The budget has allocated a token two billion rupees to "redevelop" 50,000 houses and "rehabilitate" roads on the island's plantations. Workers on the tea and rubber estates are among the most oppressed layers of the Sri Lankan working class.

While providing very limited relief for workers and the poor, the government has budgeted for a huge increase in funding for the military and police—from 76 billion rupees to 96.3 billion rupees or a 26 percent rise. The allocation to the security forces is substantially more than the combined figure of 70 billion rupees for public health and education.

The increased military budget is in line with the aggressive stance toward the Liberation Tigers of Tamil Eelam demanded by Rajapakse's chauvinist allies—the JVP and JHU. In fact, the new president was keen to ensure that the JVP was on side and supportive of the budget as a whole. He met with JVP leaders for two hours prior to announcing the budget.

During the debate, JVP parliamentary leader Wimal Weerawansa approvingly told parliament that "the budget proposals mirrored the policies of President Rajapakse". His comment is a clear indication that the JVP will be centrally involved in foisting the government's economic measures onto the masses.

There is no guarantee that the government will implement the budget measures outlined. Several economic commentators have pointed to the glaring discrepancy between the outlined expenditure of 681.6 billion rupees and the estimated revenues of 484.4 billion rupees.

Rajapakse has proposed to raise corporate taxes on large companies from 30 to 35 percent as well as to increase exercise duties and various other taxes. But the remaining budget deficit will have to be financed through new borrowings—domestic and foreign. The budget anticipates raising 76.8 billion rupees through new foreign loans—10 percent rise over last month's budget.

Economic commentators, business groups and international financial institutions have already expressed scepticism in the budget. There is no doubt that the government will come under pressure to rein in spending and implement further economic restructuring aimed at attracting foreign investment.

An editorial in the *Island* on Saturday branded the exercise as "a *kiri peni* [milk and honey] budget for the poor", writing: "Of the budget, the UNP [opposition party] has said that the real proof of the pudding is in the eating. But before eating, it will have to be made or bought and for that purpose the country needs money, which president will have to find. There's the rub! Let's hope he will succeed in his endeavour."

The National Chamber of Commerce, representing small business, endorsed the budget as beneficial, but other layers of business were clearly dissatisfied. Ceylon National Chamber of Industries chairman Nimal Perera expressed concern over the "ever widening budget deficit".

Ceylon Chamber of Commerce chairman Deva Rodrigo commented: "From a business perspective, a slightly higher income tax rate is less burdensome than a high budget deficit that could fuel inflation, increase interest rates and depreciate rupee." Corporate analyst Channa Amaratuga told Reuters: "It seems again to be a case of the corporate sector paying for those welfare subsidies... at least in the short-term."

Asian Development Bank (ADB) country director, Alessandro Pio, cautiously declared: "It will be a challenge... [The budget] does include more expenditure so it requires more attention to the revenue side. They will have to be sure to increase revenue from taxes." He then warned that the budget "may not be consistent with the idea of attracting large-scale foreign investment, which is one of the things they have said will aid them to reach the 8 percent growth."

While Pio did not openly say so, the projected figure of 8 percent growth is rather fanciful. According to the Sri Lankan Central Bank, the estimate for this year is just 6 percent. The economy has been beset by a number of problems, including the doubling of the cost of imported oil from $US800 million to $1,500 million; the end of the quota system on textile exports; and the impact of last December's tsunami. The trade deficit jumped by nearly 20 percent over the first nine months of this year compared to the same period last year, and inflation was running at 12.7 percent in October.

If the government runs into financial difficulties, there is no doubt what will be sacrificed. Under pressure from international financial institutions, Rajapakse will rapidly jettison his "pro-poor" measures in order to obtain loans and attract investment.