

# Sri Lankan government brings down a war budget

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Sri Lankan president Mahinda Rajapakse, who also functions as finance and defence minister, presented his government's 2007 budget on November 16. It was a war budget, allocating huge additional funds to the military and the intensifying war against the Liberation Tigers of Tamil Eelam (LTTE), at the expense of the pressing social needs of working people.

Rajapakse was elected in November 2005 on a program entitled *Mahinda Chintana* (Mahinda Vision), which contained a long list of promises to help the poor. All have been abandoned as the president has sought money for the military while trying to keep a lid on the expanding budget deficit. The limited increases in pay and subsidies of his first budget last December have been wiped out by inflation.

Overall budget expenditure has been increased to 834 billion rupees (\$US7.72 billion) and total revenue is estimated at 599 billion rupees, leaving a deficit of 235 billion rupees to be financed by local and foreign borrowing. The defence allocation for 2007 has been increased by 45 percent to 139.6 billion, compared to 96 billion for 2006, which was overspent.

The *Sunday Times* pointed out: "Some hectic military procurement is under way.... The government has contracted for the purchase of four Mig-27 aircraft from Ukraine, one of the major defence deals under President Rajapakse's administration." The armed forces are also planning to replace gunboats and battle tanks lost in battles with the LTTE in recent months.

The military has relied heavily on Israeli-built Kfir fighter jets to bomb and strafe LTTE positions and installations, incurring heavy costs to fly daily sorties. The army, navy and airforce have also launched another advertising campaign for new recruits.

At least 3,000 people have been killed as a result of the intensifying fighting this year, including LTTE

fighters, military personnel and hundreds of civilians. An estimated 240,000 people have been displaced, among them 16,000 who have fled to the southern Indian state of Tamil Nadu. About half a million people are trapped in the northern areas of the Jaffna peninsula without adequate food supplies, medicine and other essentials.

Yet, social spending has been slashed, not only in the war zones in the North and East but throughout the island. The defence budget is far more than the combined allocation for health and education of 51 billion and 43 billion rupees respectively. Total price subsidies have been slashed from 136 billion rupees in 2006 to 127 billion rupees in 2007. Across of the board, expenditure cuts of between 2 and 5 percent have been announced for government departments and "under performing enterprises".

Rajapakse claimed that people had told him "they will bear it while I should look after the country". But there have already been protests and strikes against the rising cost of living. The budget contains no pay rise for public sector workers and pensioners other than a cost-of-living increase in January of 375 rupees (\$US3.50) a month.

Rajapakse announced a program of *Krusha Navodaya* or Agricultural New Awakening, but the loans and tax rebates for machinery and equipment will mainly benefit the better-off farmers. The budget provided no relief for hundreds of thousands of poor farmers who are burdened by huge debts and struggling to survive.

The president attempted to put the best possible gloss on the economy, pointing to a growth rate of 7 percent. Much of this growth is simply reconstruction after the 2004 tsunami devastated the coastal areas of the island. Nearly two years after the disaster, many survivors are still living in squalour. Rajapakse admitted that 42,000

new houses are still required.

Inflation has jumped sharply this year to 12 percent, from 3.6 percent last year. The major factors include rising fuel prices and increased foreign borrowings to cover the government's widening budget deficit. The cost of importing oil is expected to increase by \$550 million to \$2.2 billion for 2006. The economy is heavily dependent on money repatriated by Sri Lankans working in the Middle East, which rose to \$2.4 billion this year. The rupee fell by 6 percent this year against the US dollar, despite Central Bank spending of \$390 million to prop it up.

Government projected foreign direct investment of \$1 billion for 2006 but only \$600 million has been realised. The IMF warned prior to the budget: "[T]he recent escalation of hostilities could pose a risk to future economic prospects ... and affect investment going forward ... the rising debt service burden adds to the economy's vulnerability to external shocks."

Rajapakse has appealed to trade union leaders to assist in suppressing growing discontent and to push through further pro-market reforms. He announced a "Presidential Task Force on National Productivity Improvement," whose members include business and union leaders, to restructure railways, petroleum, electricity, water supply, ports, postal services and banks.

Big business welcomed the budget's proposals on infrastructure and the lack of corporate taxes, but is concerned about the economic impact of the war. The Business for Peace Alliance (BPA) warned: "The massive increase in defence expenditure overshadows the spending on productive sectors, placing the country on a 'war footing' which may send out negative signals to investors."

All the major parties, except the pro-LTTE Tamil National Alliance, voted for the budget. The largest opposition party, United National Party (UNP), has formed a formal coalition with Rajapakse's Sri Lanka Freedom Party (SLFP) for the first time and agreed in advance to vote for the budget.

The Sinhala extremist parties—the Janatha Vimukthi Peramuna (JVP) and Jathika Hela Urumaya (JHU)—have urged the Rajapakse government to step up the military offensive against the LTTE. JVP MP Wijitha Herath praised the increased defence spending in an interview with *Lakbima*, declaring that if the

government prosecuted the war correctly "people are ready to starve".

The budget underscores the fact that it is ordinary working people—Sinhalese, Tamils and Muslims—who are bearing the full burden of Rajapakse's racist war.



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