Sri Lankan government delays annual budget

Saman Gunadasa
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In a cynical manoeuvre designed to hoodwink voters prior to elections next year, the Sri Lankan government has announced that it will not bring down its annual budget for 2010 next month as is usually the case, but will instead present a “vote on account”. The “vote on account” is essentially a mini-budget to cover government spending for the first four months of 2010.

The 2010 budget “appropriation bill” was expected to be presented to parliament by October 8. Deputy finance minister Ranjith Siyambalapitiya suddenly announced on October 6 that a mini-budget would be introduced because the general elections were scheduled to be held before next April. Government ministers have since claimed the “vote on account” was a democratic measure to allow the next parliament to decide on the budget.

The government’s decision is nothing of the sort. Having been compelled to seek a $US2.6 billion loan from the IMF to avoid a balance of payments crisis, President Mahinda Rajapakse, who is also finance minister, is seeking to delay the harsh cost-cutting measures that are contained in the terms of the loan until after the election. Far from being a democratic measure, the manoeuvre is designed to prevent any serious debate in parliament and more broadly of the devastating economic consequences of the government’s huge spending on its communal war against the Liberation Tigers of Tamil Eelam (LTTE) that ended in May.

Prior to elections, governments have generally brought down budgets padded out with handouts to win voters. If a change of government occurs, the incoming administration can bring down a mini-budget to alter economic priorities. The fact that the Rajapakse government has reversed the process is a sure sign that it has no money in the state coffers and is desperately seeking to delay implementing savage cutbacks until after the election is over.

Rajapakse’s newfound concern for parliament is absurd. His regime has over the past four years acted with contempt, not only for parliament, but for the constitution, the legal system and the courts. By delaying the budget, the government is seeking to avoid debate over its financials. Debate over the annual budget usually takes place over weeks. Rajapakse plans to ram through a “vote on account” with little or no discussion. It is not even clear what figures he will present to parliament, other than an overall expenditure total to be rubberstamped.

The government does, however, face IMF scrutiny. A critical condition of the IMF loan was that the annual budget deficit to be cut from 7.7 percent in 2008 to 6 percent this year. There is every indication, however, that the budget deficit this year has already blown out as a result of massive military spending. A recent Citigroup report predicted that the deficit would hit 8.5 percent this year.

The IMF has yet to comment on the government’s decision to delay an annual budget. If it does insist that Rajapakse make deep cutbacks to spending prior to the election that could provoke a standoff with the government. The US originally held up the IMF loan for months as a means of pressuring the government to accede to Washington’s demands for a political settlement to the war.

In the meantime, the Sri Lankan government is attempting to paint the economy in rosy colours, boasting that foreign reserves have increased to $US4.2 billion and pointing to the rise of the Colombo stock market. However, a large portion of the increased reserves is the result of the influx of short-term speculative capital. Foreign investors have been buying rupee-denominated treasury bills and bonds which have interest rates between 8 and 10 percent, far above current international market rates.

Ministers now brag that the Colombo Stock Market is one of the world's top performers with its Fitch Rating "stable". In fact, there has been no substantial new foreign investment in the country. According to one analyst, "Local investors have been the single cause for the [stock] market to go up. Part of the reason is the end of the war but a big contribution is from the reduction in [bank] interest rates".

The IMF has warned Sri Lanka against depending on loans to build foreign reserves. IMF mission chief Brian Aitken told the media that "the central bank has been building a war chest of reserves lately through debt. We would prefer if Sri Lanka built up reserves from exports and from remittances and not by borrowings".

The government, however, can do little to boost exports. Amid the global recession, Sri Lanka's cumulative export earnings, in fact, declined by 18 percent to $3.1 billion during the first half of 2009. Any attempt to increase exports by devaluing the rupee would immediately raise import prices and the cost of living for working people who have already been hard hit by inflation.

Income from remittances is also falling. Sri Lankan house maids in the Middle East now face intense competition from those from even poorer countries and are being forced to accept lower salaries. More highly-skilled expatriates are also being forced to accept lower paid jobs or return home. Private remittances fell from $1.04 billion in the first four months of 2008 to $1.03 billion during the same period this year.

Government revenue is also declining, despite the imposition of new taxes. According to latest data from the Central Bank, government income fell during the first seven months of the year by 3.5 percent compared to the same period in 2008. At the same time, government expenditure has increased by 17 percent.

Taxes include a 3 percent Nation Building Tax on almost all products and services; "cess" duties on a range of imports; an excise duty on cooking gas; increased duties on tobacco and alcohol; and exorbitant taxes on almost all the essential food items, fuel and other necessities. The government is also threatening a 12 percent tax on all small businesses, who presently do not pay the value added tax. Tax revenue has been affected by a dramatic decline in imports, which fell by 36.7 percent in the first half of 2009.

The government has increasingly resorted to short-term local bank loans to cover its day-to-day expenses. In January, it obtained a 38-billion rupee ($33 million) overdraft from the Bank of Ceylon, as compared to a 2.8 billion-rupee overdraft for the whole of last year. It also borrowed $875 million at 13 percent interest from the Templeton Fund USA.

Although the IMF had been relatively lenient to date, mission chief Aitken told the government earlier this month that "there has to be cuts in other expenditure areas". In particular, this will mean an end to subsidies to the state-owned Ceylon Electricity Board and Ceylon Petroleum Corporation by 2011, leading to large hikes in electricity and fuel costs. Far deeper cuts will be needed. The government has already made clear that the military will not be cut back, but will be expanded.

Workers and the rural poor have already been impacted by the government's austerity measures. Rajapakse has imposed a freeze on public sector wages and recruitment. His regime has backed the demands of employers for wage restraint. Public education, health and welfare have been starved of funds to pay for the government's war. Under conditions where there is already widespread discontent and anger over falling living standards, the government's "vote on account" is aimed at delaying any further austerity measures until after the elections.