Sri Lankan government attempts to dupe voters by delaying budget

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In the lead up to elections early next year, the Sri Lankan government has delayed the 2010 budget. Last Thursday, it passed a Vote on Account, a mini-budget, in parliament to cover spending for the next four months.

While the government claimed that a mini-budget was routine before elections, the decision is a transparent attempt to avoid scrutiny of the government's finances and the economy and to delay the implementation of savage International Monetary Fund (IMF) austerity measures until after the poll.

President Mahinda Rajapakse is expected to announce on Sunday the dates for an early presidential election, not due until 2011, as well as a general parliamentary election, which is due by April. Rajapakse is hoping to exploit the military defeat of the separatist Liberation Tigers of Tamil Eelam (LTTE) in May to deflect attention from the impact of a deteriorating economy on living standards.

The central feature of the mini-budget was a further increase in military spending, despite the end of the country's 26-year civil war. The government is boosting the size of the army and building new military bases and police stations in previously LTTE-held territory in order to establish a permanent military occupation of the island's north and east.

The total mini-budget allocation was 363 billion rupees ($US3 billion), out of which 71 billion rupees, or nearly 20 percent of the total, was for the military. If projected over the whole year, the defence budget is around 220 billion rupees—20 billion rupees higher than in the 2009 budget. Military spending was more than twice the combined allocation for public education and health of 29 billion rupees.

Deputy Finance Minister Ranjith Siyambalapitiya told parliament that the government had not bowed to the IMF in presenting its mini-budget. In reality, however, the Vote on Account was a manoeuvre designed to delay the imposition of stringent budget limits attached to a $US2.6 billion IMF loan, which was secured in July.

Under the loan conditions, the government has promised to cut the budget deficit to 7, 6 and 5 percent of GDP in 2009, 2010 and 2011 respectively. In a letter of intent sent to the IMF on October 30, Siyambalapitiya and Central Bank Governor Ajith Nivad Cabraal acknowledged that the mini-budget would "delay our ability to implement planned structural fiscal reforms as previously scheduled".

Significantly, the letter of intent added: "[W]e remain committed to achieving our original target of reducing the underlying budget deficit—excluding reconstruction spending—to 6 percent of GDP in 2010, and we believe that changes to the program can be made to maintain our good performance to date while at the same time allowing for structural fiscal reform measures once the new parliament is in place in April 2010."

The statement is an open admission that the next government will dramatically slash public spending, increase taxes and accelerate the privatisation and restructuring of the public sector as soon as the election is over. Estimates by University of Colombo economist Sirimal Abeyratne indicate that the budget deficit could blow out to 11.4 percent of GDP by the end of the year, meaning it will need to be nearly halved to meet the 2010 target.

The IMF appears to have tacitly agreed to the government's manoeuvre, releasing the second tranche of the loan last Friday—the day after the mini-budget was approved. IMF resident representative Dr Koshy Mathai noted that the IMF was "concerned about the Vote on Account implications" but added that the government's plans were "not inconsistent" with the budget targets. IMF deputy managing director Akatoshi Kato underlined the fact that "the authorities intend to submit to the new parliament a full-year budget for 2010 that is consistent with the program's deficit targets and includes tax reform measures".

With the exception of the military, the government has already imposed an effective pay and job freeze across the public sector. Speaking to an army brigade last week, Rajapakse announced an immediate salary increase for troops from November. At the same time, the government has bitterly opposed workers in the power, port, oil and other state-owned sectors who have taken industrial action to demand long-delayed pay increases.

Further major inroads into the public sector are inevitable as the government seeks to shore up its finances and meet IMF conditions. In the first seven months of 2009, revenue fell by 132 billion rupees, with the tax component down 5 billion rupees. On October 21 the government requested parliamentary approval for 10.6 billion rupees to pay interest and loan floatation expenses.

Fitch ratings warned last month that "Sri Lanka's net external debt ratios are very high… and will remain so even with the increase in official reserves". According to the agency, the national debt under Rajapakse jumped by 60 percent from 2.2 to 3.9 trillion rupees between 2006 and 2009. In the last year of the war, debts skyrocketted by 20 percent.

In the midst of the global financial crisis, Rajapakse was increasingly compelled to seek loans at high interest rates on the domestic and international commercial markets. While the Central Bank and the government now boast of high foreign reserves, the country was compelled to turn to the IMF to avert a looming balance of payments crisis. IMF residential representative Mathai yesterday warned against further government borrowing via the sale of bonds.

The government secured the Vote on Account with a comfortable parliamentary majority last week. The main opposition parties—the right-wing United National Party (UNP), the Sinhala extremist Janatha Vimukthi Peramuna (JVP) and the Tamil National Alliance (TNA) that previously supported the LTTE—all voted against.

The UNP and JVP, which are edging toward supporting a common candidate if presidential elections are called, castigated the government over waste and corruption, but remained silent on the huge military spending. Both parties backed Rajapakse's renewed war, applauded the army's victory and support the continued detention of more than 250,000 Tamil civilians.

Neither party warned that the government is preparing for a massive onslaught on the working class once the election is over. For all their populist demagogy about ending waste and corruption, both the UNP and JVP are well aware that they too will slash public spending if they win the elections.

Despite the fact that the war is over, the parliamentary session also renewed the state of emergency for another month. The emergency regulations give the president sweeping powers to authorise arbitrary detention without trial, censor the media, outlaw strikes and use the security forces to suppress opposition. The vote went through with only the TNA in opposition, while the JVP and UNP in effect backed the government by absenting themselves.

The continued the state of emergency and the build-up of the security forces is a sharp warning to the working class. These measures are aimed not only at consolidating control of the North and East but also at suppressing the opposition of workers, students and the rural poor that will inevitably erupt as the next government attempts to ram through a savage new assault on living standards.