Sri Lankan budget imposes IMF austerity demands

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Sri Lankan deputy finance minister Sarath Amunugama presented a delayed interim budget for 2010 on Tuesday, outlining plans for austerity measures to meet the demands of the International Monetary Fund (IMF).

Amunugama claimed that the budget would reduce the fiscal deficit sharply from 9.9 to 8 percent of Gross Domestic Product (GDP), while providing for tax concessions and infrastructure programs to boost big business. The deficit will be cut at the expense of workers and the poor by increasing taxes on essentials, slashing subsidies to government corporations and extending a wage freeze on public sector employees.

The budget provided no details of specific revenue measures. Instead, the government plans to impose tax rises undemocratically via gazette announcements.

The government obtained a $2.6 billion IMF loan last July in order to avert a balance of payment crisis that was triggered by the world economic breakdown, which led to declining exports and foreign investment. The IMF withheld the third instalment in February when the government failed to meet the IMF’s 2009 deficit target of 7 percent of the GDP.

Amunugama declared that the government had not acceded to any IMF conditions. However, the day before it was presented to parliament, the government sent the budget to the IMF which promptly announced the release of the delayed instalment. The budget pledged to reduce the deficit to 6.8 then 5 percent over next two years, in line with the IMF’s conditions.

Responding to the budget, IMF deputy managing director Naoyuki Shinohara said: “Despite the weaker-than-programmed 2009 fiscal performance, the government’s 2010 budget proposal, if carried out, would significantly address past fiscal slippages, mainly through comprehensive tax reforms and sizeable cuts in recurrent spending.” He added, approvingly, that the government had plans to “promote private investment and growth” and reduce the “high cost of doing business in Sri Lanka”.

According to the budget, tax collections will rise to 17 percent of GDP from 14.5 percent in 2009, without affecting the corporate sector. Amunugama said the government would bring down “excessive tax rates on personal and corporate income as well as banking and financial institutions”.

The *Bloomberg* business website reported that the government “is streamlining taxes … as investors focus on government finances after Europe’s debt crisis threatened to undermine the global economy.” These comments point to the new stage of the global economic crisis. Across Europe and around the world, the financial markets are demanding that governments slash spending and impose the burden of the debts incurred in bailing out capitalism after the 2008 financial turmoil on the working class.

A few days before the budget, the government increased the price of powdered milk by 10 percent, and wheat flour by 16.6 percent, with the costs of bread and other flour products rising accordingly. Taxes on wine and cigarettes were raised by about 5 percent.

The public sector pay freeze exposes President Mahinda Rajapakse’s fraudulent pledge, during elections earlier this year, of a 2,500-rupee ($US22) monthly salary rise for public and private sector workers. Amunugama offered another empty promise to implement a new “salary structure” in 2011. He said that, as in the past, the trade unions would be asked to help prepare it. For the past five years of the Rajapakse government, the unions have played a crucial role in suppressing workers’ pay struggles.

The government is preparing to undermine the pension schemes of public sector workers. Currently pensions are funded by the government, but from 2011 new recruits and those temporary workers entitled to permanency will be compelled to pay into a newly-created pension fund that will be extended to the private sector.

The budget declared that state enterprises, including the Electricity Board, Petroleum Corporation, Postal and Railway Departments and Transport Board, would “be made commercially efficient” and profit-making industries. Cutting government subsidies to these institutions will mean higher prices and large-scale job losses.

Despite the rising cost of living, there was no additional allocation for the welfare schemes, such as the cash-for-work program (Samurdhi), fertiliser subsidies and nutritional programs. Total health and education expenditure was reduced by 10 billion rupees, while the military was allocated 186 billion rupees.

A major reason for high levels of public debt was massive military spending on Rajapakse’s communal war against the separatist Liberation Tigers of Tamil Eelam (LTTE). Even though the LTTE was defeated in May 2009, defence spending still accounts for 15 percent of budget expenditure. The government is maintaining the huge military apparatus because it is well aware that resistance by working people will emerge to its austerity measures. At the same time, it is strengthening the military occupation of the island’s north and east.

The budget speech falsely claimed that the government is providing war-battered Tamil families in the northern Vanni region with housing, schools, hospitals and other facilities. Billions of rupees are needed to rehabilitate the region, but no such allocations have been made.

Amunugama did, however, announce a “strategic infrastructure” plan worth 300 billion rupees to facilitate private sector investment. This will involve building highways and investment zones, designed to create cheap labour platforms in several parts of the country, including the north and east.

The largest budget allocations are for debt service payments. Interest payments alone account for 337 billion rupees, or 26 percent of total expenditure. In addition, the government has to find 565 billion rupees for debt repayments this year, raising its gross borrowing requirement to 980 billion rupees ($US8.5 billion).

According to the budget, 6 to 7 percent economic growth is expected this year after it declined to 4 percent last year. The government cited an increase in export earnings by 7.1 percent during the first three months of this year as an indicator that the target will be achieved. However, the fragility of these figures was shown by a 14.9 percent drop in the country’s main export, garments. During the same period, the import bill rose up by 39.5 percent, pushing the trade deficit to $1.46 billion, a 119 percent increase over the same period last year.

Remittances from overseas Sri Lankan workers, mainly working in the Middle East, increased by 14 percent in the first quarter this year. Economists have expressed concern, however, that high remittances will not be sufficient to cover the trade deficit.

A finance ministry survey cast doubt on the government’s optimistic forecasts, admitting: “Global imbalances resulting in lower than expected global economic growth could adversely affect external demand for Sri Lankan goods and services which will result in slowing down Sri Lankan economy.” The ministry warned: “Higher than expected oil and commodity prices in international markets could threaten the macroeconomic stability and growth targets while affecting government expenditure and revenue.”

The government’s economic policy is nakedly directed at enriching big business and foreign investors. In his budget speech, Amunugama spoke of a “road map” to provide investment opportunities in fields ranging from construction to higher education. He declared: “[T]he entire government machinery is being reorganised to respond to private sector investment proposals in the areas outlined in the road map.”

In order to impose these policies, Rajapakse is not only maintaining the military machine but also concentrating increasingly autocratic power in his hands. Major class battles lie ahead, in which working people can only defend their interests by mobilising independently on the basis of the fight for a workers’ and farmers’ government to implement socialist policies for the benefit of the majority, not the business elites.