Sri Lankan budget implements IMF austerity measures

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Sri Lankan President Mahinda Rajapakse, who is also the finance minister, handed down an austerity budget this week, designed to boost business profits at the expense of living standards, along the lines demanded by the International Monetary Fund. Like governments around the world, Rajapakse's is heaping the burden of the ongoing world economic crisis on the working people to meet the dictates of the financial markets and global investors.

As required by the IMF, the budget deficit has been slashed from this year's deficit of 8 percent to 6.8 percent for 2011—the biggest cut in 19 years. This has been achieved by a continued freeze on public sector salaries, tax increases on essential goods and services and a further cutting of price subsidies.

Much worse is still to come. The IMF requires the budget deficit to be reduced to 5 percent in 2012. The government had to take a loan of $US2.6 billion from the IMF in July 2009 to avert a foreign reserves crisis caused by the worldwide financial crash and the huge expenditures on its protracted communal war against the separatist Liberation Tigers of Tamil Eelam (LTTE).

In Monday's budget speech, Rajapakse announced big tax cuts to local big business and foreign investors in the hope of attracting investment. Taxes on all export and tourism companies were trimmed from 15 to 12 percent, and taxes on financial services by even more—from 20 to 12 percent. Taxes on banking and financial institution profits were lowered from 35 to 28 percent.

By contrast, Rajapakse provocatively refused to honour an election promise in January of a 2,500-rupee ($US22.50) monthly pay rise for state employees, to end a four-year pay freeze. Instead, he proposed a 5 percent monthly allowance and a 600-rupee cost of living allowance. As a result, most public sector workers will receive only about 1,000 rupees extra per month. Pensioners will be given a paltry 300-rupee monthly allowance. These increases are negligible compared to the rising cost of living. The cheapest meal in Sri Lanka will cost a worker more than 100 rupees.

During the war, Rajapakse cited huge military spending as the pretext to suppress wage rises for public and private sector workers. In this budget, he claimed that the government could not afford wage increases because a phase of development had begun, based on "mega infrastructure projects". These projects are designed to facilitate business investment, however, not meet the pressing needs of the masses.

Having already imposed heavy taxes on essential food items and fuel, Rajapakse announced several more tax increases, including for motor vehicle licences, foreign telephone calls and cable TV. Taxes on liquor and cigarettes rose from 35 to 40 percent. The government will also end the fuel subsidy to the Ceylon Electricity Board and increase electricity tariffs by 8 percent from January 2011.

These imposts will add to rapidly rising living costs. In September, the government reduced wheat flour subsidies by 75 percent, triggering price increases for flour and bread. Wheat flour is the second staple food of working people. In October, prices of potatoes and onions doubled and sugar prices increased by around 20 percent, due to government taxes.

Alongside satisfying the IMF, the budget's highest priority was to maintain the military spending. Even though the war against the LTTE ended 18 months ago, defence expenditure rose by 7 percent to 214 billion rupees, or 20 percent of total budget outlays. The government is boosting the security forces to maintain a military occupation in the North and East of the island, and to prepare to suppress the struggles of workers and youth.

Military spending almost doubled the combined allocations for health and education—62 and 51.5 billion rupees respectively. These allocations rose by 10 and 5.5 billion rupees respectively but did not offset rising inflation.

Dwarfing all these items was total debt servicing, estimated at a staggering 815 billion rupees, a 48 billion increase from the last year. As the expected government revenue is just 987 billion rupees, the government will be forced to continue to borrow heavily. By August, total public debt had risen to 4,465 billion rupees. Last year, about 20 percent of export earnings went to finance debt servicing. A *Sunday Times* columnist warned on October 31: "At the end of 2010 it is likely that the foreign debt would be about thrice the amount of the foreign reserves and would probably require about one fourth of this year's export earnings to service it."

Rajapakse predicted economic growth of 8 percent in 2011 compared to the current year's estimate of 7.6 percent. But this year's growth figure is mainly due to the low 3.5 percent growth of last year. The estimate is extremely dubious. Sri Lanka's main economic partners in Europe and the US remain mired in slump. Sri Lanka's exports have still not recovered to the level of 2008. Overall export income rose by 10.7 percent during the past 10 months, but textile exports—the biggest earner—fell 5.1 percent. Over the same period, rising import prices saw the trade deficit widen to $3,630 million—a 103 percent increase compared to the corresponding period last year.

Despite his frequent rhetorical references to the "motherland", "home grown solutions" and "local competencies", Rajapakse announced a further liberalisation of the foreign exchange regime in a desperate bid to woo foreign investors. Foreign direct investment dropped from the beginning of the global financial crisis in 2008 and fell further to $US208 million in the first six months of this year, down from $US253 million in the same period of 2009.

Big business generally hailed the budget as "business-friendly". Bankers Association secretary general Upali de Silva declared: "The budget is very positive. Bankers who have suffered under high taxes are heartened by the reduction." National Chamber of Commerce of Sri Lanka (NCCSL) president Lal de Alwis said: "In this investment-friendly environment, the private sector and investors could expect more Foreign Direct Investment (FDI) to flow."

However, global financiers and investors were not satisfied. The *Wall Street Journal* this week threw cold water on the government's claims to be delivering a "peace dividend". Its report commented: "But a peace dividend is a one-time payout, a rise to the baseline for growth. What about recurring dividends as an economy expands organically? Here, although short-term prospects are rosy, longer term the picture is mixed. President Mahinda Rajapakse is on track to deliver far less than he promises."

Sections of the Sri Lankan ruling elite have expressed concerns that the budget has already set the stage for social and class unrest that will challenge the government and threaten the stability of the political establishment. The *Island* newspaper's editorial, while praising the budget, warned: "The government ought to remember that people's expectations are extremely high in the post-war period and they are desperate for relief in a bigger way."

The *Daily Mirror* wrote: "To tell a public servant who was promised a 2,500-rupee salary increment at the last presidential election, that all he is to now receive is 500 rupees is injurious indeed. And then to justify that by seeking a rationale in the way of finding satisfaction in infrastructure facilities provided is adding serious insult."

These comments reflect nervousness in ruling circles about class tensions that are building up as working people bear the brunt of the Rajapakse regime's efforts to meet the demands of global finance capital. They are also a warning of the brutal police-state measures that the government and the military will use to suppress working class resistance.

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