Sri Lankan government imposes austerity budget

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30 November 2011

Sri Lankan President Mahinda Rajapakse, who is also the country's finance minister, presented the budget for next year to parliament on November 21. Following the dictates of the International Monetary Fund (IMF), he has maintained the current wage freeze and imposed new burdens on workers and the rural poor, while making further tax concessions to big business.

The government plans to lift revenue by nearly 20 percent over the next year to 1.1 trillion rupees ($US10 billion) through a series of new taxes on essential items that will contribute to higher inflation. There will still be a budget deficit of 469 billion rupees, to be funded by increased borrowing from foreign and local banks.

The new taxes have been imposed on a range of imports, including dried fish, wheat flour, coriander, onions and saffron, in the name of protecting local industries. These imposts come on top of pre-budget price increases of about 10 percent for petrol, diesel and cooking gas.

Rajapakse also proposed to increase local and international phone charges by 25 percent and annual licensing fees for vehicles, including motor bikes and three-wheelers, by 25 to 50 percent.

The budget announced a 3 percent devaluation of the rupee against the US dollar—a move that will contribute to higher prices on a range of goods and services.

The government is maintaining an effective wage freeze that has been in place since 2006. Rajapakse announced a 10 percent rise in monthly allowances for public sector employees, which will increase to between 1,000 and 1,500 rupees next year. Retirees will get even less and no mention was made of private sector workers. The increased allowances will not compensate workers for projected price rises.

Rajapakse did not cut the small welfare payments of 250 to 750 rupees for poor families nor reduce the limited fertiliser subsidy for farmers. He is well aware that such steps would provoke greater disenchantment and opposition in rural areas.

The budget handed out generous tax cuts to the corporate elite. It reduced taxes on profits in the banking and finance sector by 7 or 8 percentage points and in export industries and tourism by between 12 and 15 percentage points. Foreign and local investors will enjoy tax holidays of 4 to 12 years for investments ranging between 50 and 2,500 million rupees.

Speaking to Bloomberg.com, IMF residential representative, Koshy Mathai cautiously praised the budget, saying "the exchange-rate adjustment was a step in the right direction." He said the IMF's "initial impression of the budget" was that it was "broadly consistent with the authorities' earlier articulated plans" and thus in line with IMF demands.

An IMF team will visit Colombo in January to review the economic situation. The government received a $2.6 billion loan from the IMF in July 2009 in order to avert a balance of payments crisis produced by the global financial breakdown and the huge military expenditure on the war against the Liberation Tigers of Tamil Eelam (LTTE).

The IMF halted its last two loan instalments, citing the government's reluctance to devalue the rupee and failure to meet fiscal deficit targets. According to Rajapakse's budget speech, the deficit for this year will be 7 percent of GDP and 6.2 percent next year—well above the IMF's targets.

The government's decision to devalue the currency provoked criticism from the Central Bank, which has spent at least $1 billion in recent months on the foreign exchange markets to maintain the rupee's value. The Central Bank has

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been selling rupee-denominated sovereign bonds and is concerned that a falling rupee will result in investors attempting to withdraw their money.

However, Treasury Secretary P.B. Jayasundera, who prepared the budget, told the media that value of the rupee should be "driven by market forces except in calamity." His comments reflect the view of sections of big business that the rupee is overvalued by about 20 percent and must be devalued to boost exports.

By far the largest portions of government expenditure went to maintaining the country's military machine and to pay off debt. Defence spending of 230 billion rupees and debt repayments of 914 billion rupees amount to more than 50 percent of budget expenditure.

Speaking at the Defence University after the budget, President Rajapakse justified the military spending by claiming that there was "no end to the challenges confronted by Sri Lanka despite the obliteration of LTTE terrorism two years ago."

The military maintains a permanent occupation of the island's North and East to suppress any opposition from the country's Tamil minority and is also being prepared to crush any resistance from working people to the attacks on their living standards. The defence ministry has taken over what were previously civilian powers such as urban development and is in charge of evicting 75,000 families from shanty areas in central Colombo.

Big business has indicated its approval for the budget. The Ceylon Chamber of Commerce (CCC) declared that it was "pleased to note that the tax reforms announced in the last budget have been upheld in this budget with additional incentives to promote investments and a few further simplifications to the tax structure."

At the same time, the CCC called for "further steps to improve the investment climate". Its concern is falling foreign direct investments, which reached just $500 million last year—well short of the government's target of $1 billion. The shortfall is another indicator of the impact of the worsening global economic turmoil, particularly the debt crisis in Europe.

Rajapakse boasted that despite "global uncertainties the country has been able to sustain 8 percent growth momentum." The figure, reduced from an earlier forecast of 9 percent, is largely the product of high infrastructure spending and the provision of credit for services such as telecommunications, banking and retail. The economy is unlikely to keep growing at this rate as export markets in Europe and the US contract, and the EU financial crisis worsens.

During the first eight months of 2011, the country's trade deficit rose to almost $US6 billion, 88 percent higher than the corresponding period last year, and is set to reach $US9 billion for the whole year. While the government is hoping that foreign remittances will bridge the gap, the IMF has expressed concern about a new balance of payments crisis.

The opposition parties have attempted to exploit widespread anger among working people over rising prices and declining living standards. United National Party (UNP) leader Ranil Wickremesinghe denounced the government for bringing down an "IMF budget," but his remarks are entirely hypocritical. The conservative UNP insisted in 2009 that the government had to seek IMF assistance, knowing that austerity strings would be attached.

Janatha Vimukthi Peramuna (JVP) parliamentarian Vijitha Herath declared: "People in this country hoped that the government would provide some kind of relief through this budget to ease the sky-rocketing cost of living." JVP union leader K. D. Lalkantha threatened to call a general strike.

The JVP has no fundamental opposition to the government's pro-market agenda and was part of a coalition with Rajapakse's Sri Lanka Freedom Party in 2004 that imposed austerity measures. Its trade unions have been instrumental in sabotaging any struggle by workers to defend their jobs and living standards.

The budget is a sharp warning that the whole political establishment in Sri Lanka will impose the burden of the deepening global crisis onto working people. Only by mobilising independently of all factions of the bourgeoisie on the basis of a socialist and internationalist program can the working class defend its class interests.

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