Sri Lankan government boosts military spending

Saman Gunadasa
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The Sri Lankan government presented its 2012 budgetary estimates to parliament on October 18, unveiling a nearly 7 percent increase in military expenditure. The boost to already high levels of defence spending indicates that the government, facing a deep financial crisis, is preparing for violent confrontations with working people.

Such is the extent of the fiscal crisis that total budget expenditure for 2012 is estimated at 2.22 trillion rupees ($US20.1 billion), which is double the expected income of 1.1 trillion rupees. President Mahinda Rajapakse, who is also finance minister, will announce proposals on November 21 to meet the trillion-rupee deficit. The government is already imposing new taxes and resorting to foreign and local borrowing, imposing even greater burdens on the backs of workers and the poor.

Almost half of the military allocation of 230 billion rupees will be spent on the 200,000-strong army. Military spending will be almost double the combined expenditure on health and education. At 74 and 57 billion rupees respectively, they constitute only 3.3 percent and 2.5 percent of total spending.

In addition, every year the government routinely increases military expenditure above the budgeted allocation. The 2011 allocation was recently supplemented by another 5 billion rupees. Sri Lanka's military is one of the largest per capita in the world.

According to the government, part of the 2012 allocation will pay off weapons bought during the war against the separatist Liberation Tigers of Tamil Eelam (LTTE), which was defeated in May 2009. Nevertheless, the massive amount allocated for the armed forces in "peace time" shows the extent of the government's dependence on the military to maintain its rule.

Rajapakse's regime is not only deepening its military occupation of the island's north and east, where the majority of Tamil people live. It is also keeping its military machine well oiled for use against the working class and youth. The government said it expected to obtain advanced intelligence gathering technology, expand military intelligence to all six divisions of the army and establish more police stations.

This month Rajapakse renamed the defence ministry as the ministry of defence and urban development. The urban development authority was placed under the control of the defence ministry control last year as the government prepared to evict 75,000 families from Colombo shanties in order to clear the way for developers and investors. The security forces have already been used to forcibly evict some families.

Debt repayments will consume 914 billion rupees next year. Together, military spending and debt repayments, will account for more than 50 percent of total budget expenditure, and more than the expected government income for 2012. To help fill the budget gap, the government is planning to borrow 15 percent more in 2012 than this year. Government debt rose to 4,872 billion rupees by the end of June 2011, up 12 percent from the previous year.

The government is under pressure from the International Monetary Fund to cut the fiscal deficit to 5 percent of gross domestic product next year, which is half the figure for 2009. The huge allocations for debt repayments and the military mean that savage cuts will have to be made from social spending to meet the IMF target.

Rajapakse was forced to obtain a $2.6 billion loan from the IMF in July 2009 to overcome a balance of payments crisis produced by heavy foreign borrowing for war spending, compounded by the international financial crisis that erupted in 2008. Since obtaining the

IMF loan, the government has implemented austerity measures, slashing subsidies, increasing taxes on essential items and freezing workers' wages.

Last month, the government imposed further taxes and price increases. Import taxes of about 10 percent were placed on chillies, chickpeas and cowpeas, and the cigarette excise duty was increased by about the same amount. Last Sunday, the government raised petrol and diesel prices by an average of 10 percent and kerosene prices by 16 percent. Petrol and diesel price hikes will trigger higher transport charges and costs of living, while the kerosene rise will severely affect plantation workers and the rural poor.

Foreshadowing further tax increases, finance ministry secretary P.B. Jayasundera told a pre-budget meeting with exporters' groups on October 3 that the country had "a large amount of imports and now we must look at producing these goods ourselves."

During the first eight months of 2011, the trade deficit rose to almost $6 billion, 88 percent higher than the corresponding period last year, and is predicted to reach $9 billion for the whole year.

Amid the deepening financial turmoil in Europe and the US, and a re-emerging global recession, the IMF is demanding a devaluation of the rupee, citing impending balance of payment problems. The IMF is also pressing the government to bridge the heavy losses of the state-owned Ceylon Electricity Board and Ceylon Petroleum Corporation by raising prices and restructuring them in preparation for privatisation.

To enforce its demands, the IMF has withheld the final $800 million of instalments of the 2009 loan. The government has been reluctant to carry out a currency devaluation, fearing that it would trigger abrupt price increases, deepening popular discontent. In the past, however, the government has toed the IMF line, despite rhetorical declarations that it would not yield to IMF pressure.

Speaking to ministers during a pre-budget meeting, Rajapakse declared: "The government has achieved a major victory by maintaining the country's economic growth rate at 8 percent and bringing down inflation from 11 to 7 percent during the last two years."

Rajapakse and his ministers are fully aware, however, that this economic growth, which is based primarily on the service sector and infrastructure developments, is fragile. On October 20, Jayasundera told a pre-budget business gathering: "The global economy is in turmoil and we are not free from those vulnerabilities in the global financial capitals. We are preparing this budget in much more uncertain surroundings."

The official inflation rate reached 6.4 percent in September, but this understates the unbearable increase in the cost of living for ordinary people. For a second time, the government recently changed the base year for the inflation statistics, with some economists declaring the figures unreliable.

Rajapakse next budget which will intensify the hardship caused by the wage freeze inflicted on government and private sector workers since 2006, is likely to provoke rising social unrest. That is why the government is maintaining and boosting the country's huge security forces.