Unprecedented military budget in Sri Lanka

Saman Gunadasa
19 October 2012

The Sri Lankan government's Appropriation Bill for budget expenditure for the year 2013 has allocated 290 billion rupees ($US2.2 billion) to the combined defence and urban development ministry.

This is a 26 percent increase from 2012 and represents the country's highest-ever military expenditure, even greater than during the protracted communal war against the separatist Liberation Tigers of Tamil Eelam (LTTE) that ended in May 2009.

The continued increase in defence spending is to further strengthen the military and other repressive forces of the state amid growing opposition among workers, the rural poor and youth to the government's austerity program.

These austerity measures will intensify because of an acute fiscal crisis produced by the worsening global economic breakdown. In total, the government expenditure for 2013 is projected at 2.5 trillion rupees, but the expected income is only 1.3 trillion rupees, leaving a huge budget deficit of 1.2 billion rupees.

The government said it would borrow 1.3 trillion rupees to cover the deficit. However, President Mahinda Rajapakse, who is also the finance minister, will present budget proposals to parliament on November 8 that will inevitably include tax hikes and cuts to public spending, including welfare.

Over the past four weeks, the government has already increased tariffs on potatoes, onions, construction materials, alcohol and cigarettes by 10 to 30 percent. These increases came on top of soaring prices due to the devaluation of rupee, which has fallen by 17 percent against the US dollar since February. The government has floated the exchange rate, as demanded by the International Monetary Fund (IMF).

In a speech last week, Treasury Secretary P. B. Jayasundera said the budget was being formulated under "trying conditions", with the "global economic slump expected to impact Sri Lanka's external balance and revenue," as well as a severe drought affecting tea and paddy production.

Jayasundera indicated that deeper attacks on the living standards of the working class are being prepared. He accused people of "not understanding the budget", declaring: "They all gave the president a new shopping list for the Budget 2013. But, where do we find the money?"

By July, the overall budget deficit for this year had risen to 5.56 percent of gross domestic product (GDP) and could exceed 7 percent by the end of the year. Jayasundera said the government remained determined to meet the IMF's fiscal deficit target of 6.2 percent, hinting at sharp spending cuts during the final three months of 2012. Within a few years, the deficit would be cut to 5 percent, he insisted.

As part of its cuts, the government will continue the wage freeze that has been unofficially imposed since 2006, despite the relentless rise in the prices of essentials. It is relying on the trade unions to keep enforcing the pay freeze.

After years of limiting spending on education and health—which represented just 1.8 percent and 2.1 percent of GDP, respectively, last year—the government is proposing small increases to these sectors but not enough to compensate for the already run-down conditions.

Education ministry expenditure will rise by 7.5 billion rupees and health ministry spending by 18 billion rupees—a stark contrast to the 60 billion-rupee increase for the defence and urban development ministry. Education spending will remain far below the 6 percent of GDP demanded by university teachers during their recent three-month-long strike.

In addition, the government will cut spending on public transport and economic development by 6 and 20 billion rupees, respectively. Allocations for the resettlement of war refugees have been slashed by nearly 50 million rupees.

Jayasundera said that because of the global economic downturn, Sri Lanka's GDP growth forecast for 2012 had been lowered from 7 to 6.5 percent, a sharp drop from last year's rate of 8.3 percent.

Exports are declining due to decreasing international demand and lower commodity prices in Sri Lanka's main markets, the US and Europe. In July, garment exports, the country's biggest revenue earner, dropped by more than 14 percent, while food and beverage exports fell by 32 percent. Tea exports fell by almost 12 percent and rubber exports by 14 percent.

As a result, the trade deficit will soar to a record $13 billion, up from $10 billion last year. Government is hoping to cover the gap via remittances from Sri Lankan workers overseas, estimated at $6.5 billion annually, and tourist revenue. But these predictions are questionable because the global slump will affect remittances and tourism.

Already, debt repayments constitute the government's largest expenditure item, rising to 1.2 trillion rupees ($US9.3 billion) next year. This is not included in the Appropriation Bill, since debt repayments have been permanently authorised by other financial legislation.

The government is boasting that the country's foreign reserves increased to $7 billion at the end of July. However, a considerable part of these reserves consisted of foreign borrowings, which rose by 34 percent by July, compared to last year.

Last week, the treasury announced discussions with IMF officials on borrowing a further $500 million under the IMF's Extended Fund Facility, in order to "continue with economic development activities." A Treasury official said: "If the IMF loan is not forthcoming, then we'll proceed with a bond issue."

The government's $500 million loan request underscores its mounting economic problems. It only received the final instalment of a $2.6 billion IMF standby loan, obtained in July 2009, under strict conditions, including spending cuts and currency devaluation. Any new loan will require further austerity measures to be imposed on the working people.