Sri Lankan president boasts of economic growth

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9 May 2014

President Mahinda Rajapakse seized on the 2013 Central Bank Annual Report, released last month, to boast of an increased economic growth rate of 7.3 percent, up from 6.3 percent in 2012. The report, however, covers up the country's serious economic problems, which are driving the government's austerity measures against working people.

Launching the report, Rajapakse focussed on the growth figure, ignoring the deepening global breakdown and its impact on the every economy. He claimed, without offering a shred of evidence, that "the present economic stability will remain until 2050 and plans should be formulated accordingly." He appealed to investors to "plug in" to Sri Lanka.

Central Bank Governor Ajith Nivard Cabraal, a political appointee of Rajapakse, sounded the same optimistic note. He claimed that the growth rate would hit 7.8 percent in 2014 and continue to rise, reaching 8.4 percent in 2017. In line with Rajapakse's touting of Sri Lanka as a "miracle of Asia," Cabraal dismissed the notion that Sri Lanka would be affected by global financial turmoil and economic stagnation.

Other analysts are more pessimistic. Writing in the *Sunday Times* on April 20, Central Bank economist Nimal Sandaratne noted that Sri Lanka's economic performance was "for the most part a positive one." However, he pointed to "serious concerns in public finance and debt [that] threaten economic stability and growth." He cautioned against obsession "with the growth rates achieved by increasing foreign and domestic debts."

Another economist, Muttukrishna Sarvananthan, explained that the reported higher growth "is not so much earned growth (e.g. through a rise in productivity or employment generation), but rather is significantly borrowed growth (fuelled by growth in public expenditure largely through external commercial borrowings)."

Nearly 60 percent of the 2013 growth was in the service sector, including internal and external trade, transport and telecommunication and tourism. These sectors, particularly the fragile export trade and tourism, are vulnerable to the continuing low growth and recession in the world's major economies—the US, Europe and Japan.

The Central Bank report highlights the expansion of infrastructure, including the completion of a second international airport, harbour and port development projects, expressways, highways and railway projects and in the power sector. Hotel and condominium construction is also rapidly expanding, but much of this is speculative, in the expectation of a continued expansion in the number of tourists.

Many projects are being financed via commercial loans from local and international financial markets at exorbitant interest rates. The public debt swelled again in 2013 by more than 13 percent compared to 2012 and reached 6.8 trillion rupees ($US52 billion) at the end of the year. Foreign debt in 2013 reached almost 3 trillion rupees. The cost of debt servicing, which is not included in the budget expenditure figures, exceeded total government revenue in 2013 and is covered by rolling over loans.

International rating agency Fitch recently confirmed Sri Lanka's rating at BB-, three levels below the lowest investment grade. Fitch commented that the "country's debt was over twice that of similar rated countries and foreign debt three times as much."

The debt trap is worsening. So far this year, the government has issued $1 billion worth of high interest bonds and is planning another $500 million bond issue shortly. Foreign direct investment (FDI) is declining.

Excluding foreign loans, FDI fell in 2013, compared to last year, by 2.7 percent to $916 million.

The Central Bank report mooted more concessions to foreign investors, saying “further relaxation of exchange control regulations are expected to bolster investments over the medium term.”

The government has been slashing corporate taxes and offering other concessions on income tax, dividends, port and airport levies, and custom duties for big business investors. It recently announced that, under the Strategic Development Projects Act, all these benefits would be available to casino investors as well.

The government’s handouts to big business are paid for via the continual slashing of funds for public health, education, other essential social services and subsidies to fishermen and farmers. Education spending was cut from 2.59 percent of gross domestic product (GDP) in 2007 to 1.8 percent in 2013. From 2009 to 2013, health expenditure was reduced from 1.5 percent of GDP to 1.37 percent.

In line with demands by the International Monetary Fund, the budget deficit is to be cut from 5.9 percent of GDP last year to 5.2 percent his year. In March, the government slashed gratuity payments to public employees on retirement. It is also making arrangements to convert the Employee Provident Fund (EPF) into a pension fund. The government wants to keep the EPF’s coffers at its disposal while reducing the payouts to retired workers to a meagre monthly pension.

The government has maintained a salary freeze on the public sector since 2006. Real wages for public sector workers continue to decline, with the index dropping from 145 in 2012 to 142 in 2013. The real wage index for agricultural workers, mainly plantation workers, fell from 128 to 120 over the same period. The wage index for workers in industries and trade improved marginally to 86, but is still well below the benchmark of 100 set in 1978.

While bragging about Sri Lanka’s economic growth, Rajapakse warned: “I believe in stability for faster economic growth. If there is turmoil, growth cannot be maintained at a steady rate.”

Rajapakse’s comment is not only a reference to the military defeat of the separatist Liberation Tigers of Tamil Eelam (LTTE) in 2009, but expresses growing fears in ruling circles that the deepening gulf between rich and poor will provoke social unrest.

Speaking to his audience of businessmen, bankers and transnational executives, Rajapakse said he was concerned “as to whether the gap between the haves and the have-nots will widen,” adding “we must exercise vigilance.” He blamed agitators talking about an “Arab Spring” and “coming to streets” for raising social tensions, then reassured his audience that the government would put down any resistance by workers and the poor.