Sri Lankan government boosts spending on security forces

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Sri Lankan Finance Minister Ravi Karunanayake allocated an unprecedented sum of 306 billion rupees ($US2.2 billion) for defence expenditure in the Appropriation Bill presented on October 23 before next year's budget. The budget proposals will be presented to parliament on November 20.

The allocation for the security forces is 7 percent more than this year's quota, which was drawn up by the government of former President Mahinda Rajapakse. Another 60 billion rupees was allocated for the police next year, up 18 percent from this year. The combined budget for the military and police exceeds the total for education and health—186 billion and 174 billion rupees respectively.

While government ministers boasted that education spending will increase four-fold next year, the rise comes after the continuous rundown of education expenditure to just 2 percent of gross domestic product (GDP). The increase is an attempt to deflect anger among university and school students, who have been protesting over the lack of facilities.

The huge expenditure on the security forces comes six years after the defeat of the separatist Liberation Tigers of Tamil Eelam, ending the island's protracted communal war. The increased security allocation goes hand in hand with an ongoing assault on the living standards of working people and is in preparation for suppressing the resistance of workers and the poor.

The budget proposals are being prepared as President Maithripala Sirisena's government faces deep financial problems and a looming balance of payment crisis.

Total estimated government expenditure for 2016 is 1.9 trillion rupees, excluding debt repayments. The government expects to borrow up to 1.3 trillion rupees in 2016, mainly for huge debt payments. In 2014, debt servicing required 1.07 trillion rupees—more than the 1.05 trillion rupees of total revenue raised from all taxes.

On October 28, the Central Bank raised $US1.5 billion by selling ten-year global sovereign bonds at a high interest rate of 6.8 percent. Reuters reported finance ministry sources as saying that the money would be used to plug the hole in the budget. Over the past 10 months, the government has obtained $2.3 billion in loans from the international money market, including $1.5 billion from India.

Speaking at a seminar in Colombo last week, economist Dushini Weerakoon warned that "the government is heading for major foreign reserves crisis." She noted that the government had only $4.5 billion in foreign reserves, sufficient for four months of imports.

A major part of the reserves consists of loans obtained on the international money markets at high interest rates. Sri Lanka's foreign debt has risen from 36 percent of GDP in 2010 to 94 percent this year.

The balance of payments in the first eight months of the year showed a deficit of $1,795 million, compared to a surplus of $2,150 million a year earlier. The chief reason is the widening trade deficit as global recessionary trends and rising geo-political tensions have impacted on exports.

The trade deficit for the first eight months of the year reached $5,412 million amid declining exports. The Central Bank reported "decreases in all major export categories," including lower earnings from tea, textiles and garments. Overall export earnings fell year-on-year by 3.4 percent for the first eight months of this year.

The balance of payments deficit would have been even higher if not for remittances from expatriate workers, mainly housemaids in Middle Eastern countries, and income from tourists. Remittances in particular are highly vulnerable to the volatile situation in the Middle East.

Facing balance of payment difficulties, the finance minister flagged the resumption of talks over a $4.6 billion loan application to the International Monetary Fund (IMF). In March, the IMF rejected a similar request, declaring that the government must slash the budget deficit. It was highly critical of limited public sector wage and pension rises in February, which were aimed at heading off discontent. Public sector salaries had been effectively frozen since 2006.

Karunanayake said the expected budget deficit for this year was 6.5 to 6.8 percent of GDP. An IMF mission to Sri Lanka in September "strongly recommended keeping the 2016 fiscal deficit to 5.5 percent of GDP." In other words, the IMF is demanding further drastic cuts to government spending.

In this context, the November budget will almost certainly contain harsh austerity measures, including cutbacks to essential social services, such as welfare, and tax hikes on essential goods for workers and the poor.

The government has already devalued the rupee, by allowing it to float freely—a move praised by the IMF. Over the past 10 months, its value has fallen by 7 percent, including a large 4.4 percent fall after the Central Bank floated the currency in September.

The devaluation has increased the price of all imported goods, including essential items. The government also raised prices for food such as dhal, dried chillies, cowpeas, sprats, gram, onions and potatoes.

The Finance Ministry recently announced tax rises for potatoes, sugar, dhal, kurakkan (an edible seed), margarine and green peas. Three weeks before the Appropriation Bill was presented, prices for alcohol and tobacco were increased by about 10 percent.

The IMF is also calling for a major restructuring of state-owned enterprises. Its September statement declared: "Putting state firms on a commercial footing, allowing them to make market-based financial decisions (including pricing) and subjecting them to the greater financial discipline will also help to reduce risks to the budget and the financial system."

These enterprises include the Ceylon Electricity Board, Ceylon Petroleum Corporation, National Water Supplies and Drainage Board and Sri Lankan Air Lines. Prime Minister Ranil Wickremesinghe recently suggested that the government would set up a holding company like Singapore's Temasek, responsible for all state-owned enterprises.

Such a move would be a preparation for a major restructuring of these enterprises, which will mean a new round of job cuts and attacks on wages and working conditions.