Sri Lankan government presents austerity budget

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The first budget of Sri Lanka's "unity" government, presented to parliament by Finance Minister Ravi Karunanayake last Friday, will impose a series of austerity measures on working people while granting significant concessions for local and foreign capital.

The budget is in line with the pro-business demands of the International Monetary Fund (IMF) and the "economic policy statement" delivered by Prime Minister Ranil Wickremesinghe to parliament on November 5. Those measures included the commercialisation or privatisation of state-owned enterprises, the cutting of price subsidies and greater tax burdens on workers and the poor.

To deflect popular opposition, Karunanayake tried to disguise the anti-working class character of the budget. By lowering of the Special Commodity Levy imposed by the previous government, the prices of some essential items, including potatoes, large onions, infant milk powder, sprats, dhal, chick peas, canned fish, kerosene oil and cooking gas will be somewhat reduced.

The Colombo media quickly seized on these meager concessions to declare that the government had presented a "peoples' budget." This claim is absurd as any examination of the measures will show.

Karunanayake began his budget speech by highlighting the need to slash public spending. "The time has come to critically analyse and evaluate the expenditure needs of the line ministries and departments to rationalise unnecessary expenditure," he declared.

The finance minister targeted the country's very limited welfare schemes for the poor by declaring they would be restricted to "those who actually require assistance." The government plans to set up a network headed by village officers who will decide "who actually need to be included in social protection schemes."

The present price subsidies for fertiliser will be replaced by fixed grants of 25,000 rupees per hectare. Farmers have already expressed concerns that the change will add to their financial problems as fertiliser prices tend to rise quite quickly.

The government proposes to abolish public sector pensions for new recruits from next year. Instead workers will have to pay into a contributory pension system. Karunanayake justified the measure, saying: "The pension bill has increased by 170 percent during the 2005–2014 period requiring appropriate actions to manage the continuous increase." The IMF has long demanded deep inroads into the government pension fund, branding it as unaffordable.

The budget will further increase indirect taxes, which constitute 80 percent of the government's tax income, while slashing direct taxes on big business and the rich. The burden of indirect taxes falls disproportionately on the poorest layers of society who are already struggling to make ends meet as prices continue to soar.

Liquor and tobacco will attract a 25 percent surtax. The Value Added Tax for services is to be increased from 11 to 12.5 percent, adding to the cost of water and electricity in particular. The Nation Building Tax (NBT), which is applicable on all imports, manufactures and services, including wholesale and retail trades, will be doubled from 2 to 4 percent. The Ports and Airports Development Levy (PAL) on all imports will be increased from 5 percent to 7.5 percent.

Karunanayake also signaled a major assault on the working conditions of public sector workers. "I regret to note that public sector delivery has remained below par. It must be corrected. Productivity remains a serious issue hampering overall economic growth in the country," he said.

The finance minister proposed a series of pro-business measures, including further privatisation. He proposed the establishment of a Special Purpose Vehicle (SPV) to boost private investment in government-owned entities such as Norochcholai coal-fired power plant.

Private universities are to compete with state universities, which will inevitably be starved of funds and degraded. In a bid to blunt student protests over the establishment of private medical colleges, Karunanayake declared: "Our government also is of the view that private universities should be allowed to operate and offer courses, except in medicine."

The finance minister "requested" the private sector increase monthly salaries by 2,500 rupees within two years. He remained silent, however, on fulfilling the remaining portion of the government's promise to increase public sector salaries by 10,000 rupees.

The rates for corporate and personal income taxes have been "simplified" to two bands of 15 percent and 30 percent. Apart from gambling, liquor, tobacco, banking, financial services and trading, all other business sectors will be taxed at 15 percent—down from the previous general tax rate of 28 percent. At a post-budget forum on Monday, Karunanayake boasted that Sri Lanka now had the world's best income tax rate.

The government has also removed restrictions on foreigners owning land and withdrawn the tax for foreigners on leasing land. It has also removed income tax for non-citizens on dividends and allowed any bank account to provide for foreign investment. Karunanayake also eliminated taxes on the wealthy, including a mansion tax on luxury condominiums, levies on luxury and semi-luxury cars and a tax on corporate super profits.

Not surprisingly, the Ceylon Chamber of Commerce welcomed "the 2016 Budget for its measures to boost private investment and promote inclusive economic growth." It demanded the strict implementation of the budget's pro-investor proposals: "While the direction of the Budget is broadly positive, it needs a focused implementation strategy with specific milestones," its statement declared.

The budget is above all geared to meeting the IMF's demand to reduce the budget deficit from the current 6.8 percent of GDP to 3.5 percent by 2020. The government is desperate for an IMF loan of $US4 billion to avert a grave balance of payment crisis. As noted by Karunanayake, exports have slumped from 33 percent of GDP in 2000 to 14 percent in 2014.

The finance minister opened his budget speech by boasting of the record of successive United National Party (UNP) governments in imposing the pro-market agenda. The government of President J.R. Jayawardene initiated the opening up of Sri Lanka to foreign investment in 1977. The previous Wickremesinghe government implemented its infamous "Regaining Sri Lanka" from 2001 to 2004, which Karunanayake bragged, had turned the economy from negative to positive growth.

As indicated in the first reading of the budget appropriation bill, the government has allocated an unprecedented 306 billion rupees ($2.2 billion) to the armed forces and police. In the budget speech, the finance minister said that the number of police stations would increase from 428 to 600—an indication that the government is preparing police repression against the inevitable opposition that its budget will provoke.