Sri Lankan budget deepens austerity offensive

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The Sri Lankan government's 2017 budget, which cuts social spending and increases a range of taxes and levies, is a direct assault on the social conditions of the working class and the poor.

Announced last week by Finance Minister Ravi Karunanayake, the budget is in line with International Monetary Fund (IMF) dictates. It aims to cut the budget deficit to 4.7 percent of gross domestic product (GDP) by 2017. The budget deficit is currently 5.4 percent. The IMF wants it reduced to 3.5 percent by 2020.

Tax revenue will be increased by 27 percent, while government expenditure is reduced from 1.94 trillion rupees to 1.81 trillion rupees (about $US12 billion) over the next 12 months.

Ten days before releasing the budget, the government increased its value added tax (VAT) from 11 to 15 percent and applied it to most of the products and services used by the working people. The VAT net was also expanded to include businesses with a turnover of 1 million rupees ($6,800) per month.

Early this month the government also increased the tax on cigarettes by seven rupees. Including the VAT increases, the overall tax rate on cigarettes has gone up by close to 90 percent.

The budget itself includes:

*A new 25 percent tax on Internet use (with this, taxes on Internet users go up to a staggering total of 45 percent).

* A 200-rupee tax for new mobile number (SIM) activation.

* A 0.05 percent tax on cash transfers through mobile phones.

* A 5-rupee tax on lottery tickets.

* An increase in the airport embarkation tax, from 4,500 rupees to 7,500 rupees.

* A 50 to 100 percent rise in vehicle emission (carbon) taxes.

Other measures include tax hikes on low-cost cigarettes (beedi), alcohol concentrates (ethanol) and television dramas. A new tax has been introduced on filing cases in the law courts. Traffic fines beginning with the minimum of 20 rupees will be raised to 2,500 rupees.

On November 12, the government also announced that water tariffs would be increased by 30 percent on December 1.

The new tax hikes, along with the VAT rises implemented on November 1, will produce sharp rises in the prices of essential consumer goods and services and the overall cost of living. Last month the inflation rate in Colombo rose by 4.3 percent.

In a crude attempt to deflect attention from the social impact of the government's measures, Karunanayake said the cost of some essential food items would be reduced by 67 rupees, which will have no real bearing on living costs.

In addition, the budget cut funding to primary and secondary education by 60 percent this year, down from 185 billion rupees to just 76 billion rupees. Confronting widespread criticism, Karunanayake said he would increase the allocation by about 17 billion rupees, a pittance when compared to the overall cut.

University education will be slashed by 5 billion rupees, down from 38 billion rupees this year, and health cut by 13 billion rupees, from 174 billion rupees this year to 161 billion rupees in 2017.

The finance minister's speech mainly concentrated on government plans to expand the privatisation of education. "We must facilitate more non-state degree awarding institutes in the country," he said, and announced an 800,000-rupee bank loan scheme for students to further encourage private higher education.

Karunanayake denounced ongoing protests by university students against the privatisation of education, declaring: "We cannot allow the country's development to be held at ransom by a few placardcarrying, politically-motivated groups."

The government is planning another major attack on pensions for public employees. The finance minister claimed that "the government's unfunded pension scheme is a time bomb waiting to explode" and said the government was planning to introduce a "contributory pension scheme." In other words, contributions will be deducted from employees' salaries.

Karunanayake also lashed out at State Owned Enterprises (SOEs), saying they were "draining the treasury." The IMF has demanded that the government stop funding the Ceylon Electricity Board, the National Water Supplies and Drainage Board and the Ceylon Petroleum Corporation, and increase tariffs to cover all SOEs expenditure and losses.

While the budget includes slight increases—around 2 percent—in the concessionary corporate tax applicable to education, agriculture and export businesses, and a 2.5 percent increase in the withholding tax (WHT), $100 million in tax concessions are provided for large investments.

The finance minister also proposed various incentives for foreign buyers of luxury condominiums, including local bank loans of up to 40 percent. In addition, corporate taxes have been waived for the headquarters of multinational organisations located in Sri Lanka.

These concessions are a desperate bid by the government to attract foreign investment and avert a looming balance of payment crisis. Hit by the global recession, Sri Lanka's exports are in decline and Foreign Direct Investment (FDI) dropped by 37 percent, to $339 million, in the first seven months of 2016.

Karunanayake announced that four new Free Trade Zones (FTZ) will be established, at Kalutara, Rathnapura, Puttlam and Vavuniya. The low-wage zones will be managed by the private sector and designed to produce rubber, chemicals, pharmaceuticals, mineral, fabric and automotive goods.

The finance minister declared that in these FTZs and other sectors, he expected the trade unions to allow flexible working hours within the 45-hour work week, an increase in the contract employment period from six months to one year, and wages based on performance. These proposals, which have won the support of various unions, are meant to force employees to work during their holidays, encourage contract work and impose high productivity targets.

President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe both declared that the budget was designed for the development of the country. These claims are laughable.

The new budget has been drawn up on the direct orders of the IMF. Its purpose is to provide more concessions to foreign investors and the rich, and impose the burden of the deepening economic crisis on workers and the poor.

Big business immediately hailed the budget. Referring to moves to cut the deficit and provide new capital incentives for investment, Ceylon Chamber of Commerce chairman Samantha Ranatunga said "some of the biggest challenges have been well covered." National Chamber of Commerce president Tilak Godamanna said the government's proposals were "quite promising."