Sri Lanka: IMF-dictated budget deepens austerity and privatisation

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25 November 2017

Sri Lankan Finance Minister Mangala Samaraweera presented the government's 2018 budget to parliament early this month. The budget, in line with International Monetary Fund (IMF) demands, proposes new taxes on the working masses, increased charges for government services, deregulation of the labour laws and the further privatisation of state-owned enterprises.

Samaraweera falsely claimed that new taxes in his budget were to cover the cost of "environment protection" and the "protection of public health."

In reality, indirect taxes, paid chiefly by working people, will constitute a staggering 74 percent of the government's tax income, while direct taxes paid by the rich will fall to just 17 percent of the total. The measures come two months after parliament passed draconian tax measures demanded by the IMF.

The budget includes the following:

* Carbon taxes levied according to engine capacity—motorcycles 0.17 rupees per day, cars 1.78 rupees and passenger buses 2.74 rupees per day

* Polyethene tax on plastic resins, 10 rupees per kilogram

* A tax of 200,000 rupees per month for a cellular phone tower, which will increase mobile call charges

* An excise duty of 0.50 rupees per gram of sugar in beverages

* Debt repayment levies that will be charged at the rate of 0.20 rupees per 1,000-rupee bank transaction

* Advertisements circulated via SMS will be charged at the rate of 0.25 rupees per SMS

* Higher alcohol taxes: 3,300 rupees per litre for spirits; 2,400 rupees per litre for beer and wine

* A 15 percent Value Added Tax on electronic goods, cameras, watches, spectacles and several other items

* Higher taxes on all vehicles, apart from electric-powered cars, which receive a nominal tax reduction

As well as these taxes, the cost of all government services, such as train transport and postal and court charges, will be lifted by 15 percent.

With these increases the government estimates that its annual income in 2018 will climb to 2,326 billion rupees ($US15 billion), up from this year's target of 1,997 billion rupees ($13 billion).

Government expenditure next year, however, is expected to be 3,001 billion rupees ($19 billion), mainly due to debt repayments, up from an estimated 2,677 billion rupees ($17 billion) this year. The targeted budget deficit for next year is 4.5 percent of GDP. In order to comply with IMF loan requirements, this has to be reduced to 3.5 percent by 2020.

The government's budget is aimed at raising money to repay debt and interest payments to global finance capital. According to Samaraweera, the accumulated government debt repayments for the next three years are 7,000 billion rupees ($45 billion).

Commenting on the budget measures, Fitch ratings agency highlighted the government's compliance with IMF demands, but warned: "High government debt and the large cost of debt servicing weighs heavily on Sri Lanka's credit profile."

Meanwhile, Sri Lanka's cost of living index has climbed to unbearable levels over recent months as a result of previous tax increases and various man-made or natural calamities. In October, inflation rose to 7.8 percent, up from 6 percent in August.

Samaraweera attempted to deflect attention from this increase by announcing minimal price reductions on four essential food items—potatoes, lentils, sprats and edible oil—a day before his budget speech.

As well as stepping up its assault on the living conditions of working people, Samaraweera addressed the demands of global corporations for the deregulation of labour laws and the lifting of restrictions on foreign capital's ability to buy land.

"Complex labour laws and bureaucracy… obstructed foreign enterprises" from investing in Sri Lanka, Samaraweera declared. He called for the repeal of the Shop & Office Employees Act. The abolition of this legislation, which covers large numbers of private sector employees, would drastically worsen wages and working conditions.

The government also plans to establish several new economic zones and industrial parks for foreign investors in areas such as Milleniya, Bingiriya, and Charlemont Estate and Weligama.

In an attempt to disguise the further privatisation of state-owned enterprises, Samaraweera used the term "Private Public Partnership" (PPP) in his budget speech.

PPPs would enable "investments in infrastructure without compromising our ability to maintain a robust social safety network," Samaraweera claimed. "We will pursue PPPs in a wide variety of sectors covering transport and highways, power, ports, water supply, healthcare, education, housing, agri-business, retail and minerals."

The IMF demanded the privatisation of state-owned enterprises before it would release the next tranche of the $1.5 billion loan approved in mid-2016. The government has already established a PPP Unit in the finance, which is being provided with financial support by the World Bank.

Samaraweera also foreshadowed the deregulation of the country's two principal banks: "Our state banks are now mature enough to raise their own capital from the markets. It is in this context that we will allow the Bank of Ceylon and the People's Bank to raise both debt and equity capital," he said. Not surprisingly, Ceylon Chamber of Commerce chairman Rajendra Theagarajah hailed the proposal.

Samaraweera also claimed that the government's ongoing attack on free education and its plans for private universities were an "investment in world class university education" and "market oriented vocational training."

A comment on the budget in this week's *Sunday Times* was particularly revealing. "Serious discussion on the budget has been mostly favourable. Accountants, economists, industrialists, chambers of commerce and other professional bodies have viewed it favourably and been in agreement with the general thrust and objectives of the budget," it stated.

That working people, rural farmers, fishermen, unemployed youth and students, are omitted from this assessment is no accident.

The government is acutely conscious of the growing popular opposition to its big-business policies. That is why the second largest allocation in the 2018 budget, next to debt repayments, is for the security forces whose total funding will increase to 290 billion rupees ($1,870 million) in 2018, up from 283 billion rupees ($1,826 million) this year.

Colombo, which has deployed the military against workers' strikes and mobilised the police in violent attacks on students, the rural masses and the Tamil population in the country's north, is preparing to escalate these assaults.

The final parliamentary vote on the regressive proposals, which Samaraweera says are "non-negotiable," is scheduled for December 9.