Sri Lankan government to impose drastic austerity measures

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Sri Lankan Finance Minister Basil Rajapakse has made clear that his 2022 budget will be ruthless. “The people will not gain anything. Instead, we will be taking from them,” he told the media on November 1.

The recently appointed finance minister, who is the younger brother of President Gotabhaya Rajapakse, will present the budget to parliament on Friday.

On November 2, Treasury Secretary S.R. Attygala told a media briefing that the government wants to drastically cut the fiscal deficit to 4.5–5 percent of gross domestic product (GDP), down from last year’s 14.7 percent.

Slashing the budget deficit by two-thirds means that the government will abolish its remaining meagre subsidies to small farmers and the poor and impose higher taxes that will drive up the price of all essential items. Since early last year, the government has printed close to three-trillion rupees to bridge the budget gap, triggering a sharp 27 percent devaluation of the rupee.

In the lead up to Friday’s budget announcement, the government continues to remove limited price controls. On November 3, the Consumer Affairs Authority lifted price controls on 14 essential food items, including dhal, sugar, sprats, green gram, potatoes, large onions, canned fish, chickpeas, wheat flour, full cream milk powder, dried fish, coconut, chicken and maize.

Sri Lanka’s official year-on-year food inflation hit almost 13 percent last month.

The decision followed the removal of controls on other essential food items in September, including rice and flour, which led to 10 to 40 percent increases respectively, and an 80 percent rise in the cost of cooking gas.

On August 30, President Rajapakse suddenly imposed a national state of emergency under the pretext of stopping the hoarding of food stocks and guaranteeing an uninterrupted supply of essentials at controlled prices.

Rajapakse appointed a retired Army officer as the commissioner general of essential services to undertake the relevant measures. Last week, however, the government abolished this position, indicating there will be no more price controls nor “uninterrupted” supplies of essentials.

In another indication of Sri Lanka’s deepening economic crisis, the media reported last week that over 900 shipping containers of essential goods were being held at Colombo Port. This included 350 shipping containers of sugar, which is already in short supply in the market. Importers said they were unable to clear the goods because they had not been issued the necessary foreign currency due to US dollar shortages in Sri Lanka.

The scarcity of essentials, such as cooking gas, milk powder, sugar, and kerosene, has created immense difficulties for working class and poor families who have to wait in long queues for dwindling supplies or return home empty-handed. The shortages and the skyrocketing prices mean that hunger and starvation is rising across the country.

Last week government authorities issued a circular telling pensioners about a plan to deduct 400 to 600 rupees ($US2 to $US3) from their monthly pensions. The measure has been introduced under the pretext of expanding a pensioner insurance scheme. It is, however, the beginning of cuts in current pension expenditure which is regarded as a burden on the state coffers.

In early October, Finance Minister Rajapakse released his total budget expenditure estimates for 2022 which constitute a reduction of about 173 billion rupees on the current year. The cuts will mainly apply to

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health, provincial councils, samurdhi (a small welfare allowance for the poor), water supply, women and child development, rural housing and labour spending.

Desperate for foreign direct investment, Colombo is now offering even more generous concessions to multinational companies (MNCs). Finance Minister Rajapakse recently held a closed door meeting with the heads of various MNCs operating in Sri Lanka to discuss what they expect from the budget. Companies in attendance included A. Baur and Company, AIA Insurance, CEAT Lanka, Dole Lanka, INSEE Cement, Itochu of Japan, Huawei Technologies, Standard Chartered Bank, and Ernst & Young.

According to the limited media reports, the finance minister assured the MNCs that the government would maintain "consistency in fiscal policy," i.e., retain a low tax regime. In fact, corporate tax rates in Sri Lanka were reduced in the last budget to between 14 and 24 percent, the lowest in South Asia. The MNCs submitted a shopping list of "recommendations," including fast government approvals of land for growing export crops and reduced government intervention on pricing. Rajapakse assured the meeting that he would consider their "recommendations" and attempt to resolve them.

Sri Lanka's economic crisis has been exacerbated by the pandemic with dramatic falls in exports and foreign remittances and a collapse of the tourist industry, leading to major foreign debt repayment problems for the government.

Late last month, Moody's Investors Service further downgraded Sri Lanka's credit rating, putting it in the same league as Ethiopia, Laos and the Republic of Congo. The agency said the government was too reliant on "piecemeal funding such as swap lines and bilateral loans" and, "in the context of very low foreign exchange reserves," this posed "default risks."

Sri Lanka's foreign exchange reserves fell to $2 billion at the end of September, sufficient for only around 1.3 months of imports. The country, however, needs to pay 4 to 5 billion rupees annually in international debt servicing until 2025. Moody's also predicts that Sri Lanka will have to borrow a staggering 25–27 percent of GDP per year in 2022 and 2023.

Sri Lanka's Central Bank angrily rejected Moody's assessment, declaring that the downgrading was "untimely" because the forthcoming budget would "set the tone for policy initiatives and structural reforms that could help alleviate the external challenges."

These "policy initiatives and structural reforms," are already underway as the government intensifies its moves to privatise the state-owned power and petroleum sectors and the ports, in line other "structural reforms" dictated by the International Monetary Fund. These reforms are aimed at driving up the price of fuel, electricity and other utilities so existing government subsidies to state-owned sectors can be withdrawn and the industries turned into profitable investments for international finance capital.

The government privatisation agenda is deeply unpopular and led to nationwide protests by electricity, petroleum and port workers on November 3. This Friday's austerity budget will further intensify social tensions and force the working class into struggle against the Rajapakse regime.

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