IMF endorses Sri Lankan government budget

By Saman Gunadasa
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The second reading of the 2019 government budget presented by Finance Minister Mangala Samaraweera was passed by the Sri Lankan parliament on Tuesday. The final vote on the United National Party (UNP)-led government's measures, which are in line with International Monetary Fund (IMF) demands, will be taken on April 5, after further debate.

The IMF mission chief for Sri Lanka, Manuela Goretti, told the *Dailyft* on Tuesday that "a prudent policy mix is necessary" because the government faced a "public debt at over 90 percent of GDP, large refinancing needs, and low reserve buffers." Samaraweera's budget, she declared, "strikes an adequate balance by advancing fiscal consolidation."

In 2016, the IMF approved a $US1.5 billion bailout loan to Sri Lanka. The final two instalments, amounting to $500 million, however, were suspended last October. This was in response to President Maithripala Sirisena's sacking of the pro-US Ranil Wickremesinghe as prime minister and the eruption of bitter faction fighting inside Colombo's ruling elite.

Sirisena appointed former President Mahinda Rajapakse as prime minister and then, after Rajapakse failed to win a parliamentary majority, dissolved the parliament.

The US, which regards Rajapakse as pro-Chinese, opposed his appointment. In December, the Sri Lankan Supreme Court overturned Sirisena's dissolution of parliament, compelling him to reappoint Wickremesinghe as prime minister.

While the IMF, following requests from Colombo, agreed to recommence its loan program in February, Goretti reminded the *Dailyft* that the resumption of IMF funding required "the government to return to the basics." She called for more state-owned enterprises (SOE) to be brought under its scrutiny through "Statements of Corporate Intent"—i.e., making them commercially viable through downsizing and by increasing prices or charges. She also warned the government that the budget deficit target of 3.5 percent of gross domestic product had to be observed.

With provincial council and presidential elections due at the end of this year, it was expected that the UNP-led government would attempt to make some concessions in its 2019 budget. But facing a massive debt crisis and the IMF dictates, the government announced a few cosmetic measures while moving to boost tax revenue.

The token concessions include a 2,500-rupee ($US14) rise in the monthly salaries of state sector employees and a 600,000 increase in the number of people receiving Samurdhi (limited living allowance) welfare payments. Currently about 1.3 million Samurdhi recipients are only paid between 1,500 and 3,500 rupees per month. Other proposals include concessionary loans for small businesses, self-employed persons and students for private education fees.

Prior to the release of Samaraweera's proposals, the government's plantation minister claimed that the budget would include a 50-rupee increase in the daily allowance paid to estate workers. While this did not occur, the government, in an attempt to deflect the anger of estate workers, has made an arrangement for a 50-rupee monthly allowance to be paid through Tea Board earnings. These payments, however, will only last for a year.

Plantation workers held a nine-day national strike in December to demand a 100 percent pay increase and lift their poverty-level basic daily wage to 1,000 rupees. The plantation companies rejected this and, with the connivance of the unions and blessing of the government, only increased the daily wage by 40 percent while slashing previous hard-won allowances.

The UNP-led government faces mounting opposition from workers over its attack on social rights. Together with working-class struggles around the world, protests have erupted among farmers and fishermen over subsidy cuts and from students opposing the privatisation of education.

In line with the IMF austerity demands, the budget contains new taxes and rate increases. These include:

* A 12 percent increase in excise duty on cigarettes

* Higher excise duties on local hard liquor and malt liquor, up by 8 percent and 12 percent respectively

* A 3.5 percent tax on all foreign payments by credit cards

* An increase in the embarkation fee to $US10.

Finance Minister Samaraweera also announced new steps towards the privatisation of the Sri Lankan railways. The rail service, he declared, would be improved "in conjunction with the private sector" and "allow the private sector to lease/rent Sri Lanka railway carriages."

According to the Institute of Policy Studies, a government think tank, indirect taxes, which are mainly paid by working people, constituted 84 percent of all tax revenue last year.

Samaraweera said that the government would move to increase taxes paid by small businesses, self-employed people and other sectors of the working population, including by the establishment of a Revenue Intelligence Unit. At the same time, he announced enhanced tax concessions for wealthy investors where investments are over $100 million and $1 billion.

The government's estimated total revenue and grants for 2019 is 2.4 trillion rupees and total expenditure of 4.6 trillion rupees, with the deficit expected to be around 2.2 trillion. Almost all the deficit will be financed by borrowings.

On March 7, the Central Bank floated an international sovereign bond auction to borrow $2.4 billion for $5.9 billion debt repayments due this year. The government paid $1 billion towards the debt in January and is required to pay $2.4 billion in April. These figures point to the depth of the economic crisis facing the Sri Lankan capitalist class.

The 2019 budget allocated 393 billion rupees for the armed forces and police but only 187 and 105 billion rupees for education and health respectively.

Health and education spending is almost the same as the allocation last year and the combined amount is 100 billion rupees less than that provided to defence and police. The security forces and the police are routinely deployed by the government to suppress demonstrations and protests by workers, the poor and students.

Big business responded to the budget by demanding more concessions. The Ceylon Chamber of Commerce said the budget was "realistic" but voiced its displeasure at the government's failure to address the privatisation of the state-owned enterprises. It also raised concerns about last year's 3 percent growth rate and said the growth estimate for 2019, "is not a positive signal for business climate."

President Sirisena, who collaborated with the UNP government for four years to impose wide-ranging attacks on workers' social and democratic rights, made clear the austerity had to continue.

"It was not possible to address all the demands, because the country is facing severe economic crisis," he said, referring to the proposed budget. "All of us have to understand [that] carrying out demonstrations, strikes, protests, marches, demanding allowances and facilities, will only further weaken the economy."

Sirisena, who cynically calls for "stable government," hopes to win reelection as president with the support of Rajapakse's faction. Rajapakse and his Sri Lanka Podujana Peramuna (Sri Lanka People's Front), however, are appealing to the military and organising with various extreme-right Sinhala chauvinist formations. Their declared agenda is for the establishment of a "strong government" of their own party.

Confronting massive debts and the growing mass opposition, all factions of Sri Lanka's ruling elite are preparing for police-state forms of rule to impose the full burden of the mounting economic crisis on the working class and the poor.