Sri Lanka: Panic or economic crisis

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Contents

There is a political rush in Sri Lanka. The Budget Speech was made a month ahead of schedule, the Pope is to visit in January, and now Presidential Elections may be jammed in before or after that. Is this a moment of panic?

Is the ruling regime worried about losing its electoral base? Or is it concerned about a looming economic crisis?

The 2015 Budget, released on Oct 24, is an election budget. It has been made to please the voter base before the election. It consists of increases in state employment, subsidies for various constituencies, pay hikes, price reductions and generally attempts to address the economic discontent generated by the rising cost of living and the lack of decent incomes and employment. As with most election budgets, these proposals are neither sustainable nor ever meant to be sustained.

A deeper analysis of any budget should locate it within the broader economic policy trajectory in Sri Lanka. Despite the numerous hand-outs, the 2015 Budget does not shift from post-war economic policy regime constituted by financialisation, urbanisation and infrastructure development. Indeed, it is these neoliberal policies expanding the financial sector, promoting massive construction and bubble like real estate, that have contributed to the illusively high GDP growth rates to the benefit of a small elite class. And it is those policies that have resulted in massive inequalities and excluded large sections of our society from the national economy. The 2015 Budget is then an attempt to pacify the massive rural population and to an extent the urban poor in the run up to the elections.

Populist rural hand-outs

Even before the Budget Speech, the electricity price cuts and the handover of motorcycles to government officials shaped expectations of the Budget.

The election budget builds on the history of regimes in Sri Lanka that have depended on state employment and subsidies to ensure the support of the large rural vote base necessary for electoral success.

The 2015 Budget aims to provide massive employment to youth with Advanced Level qualification. Fifty thousand youth will be employed as teacher assistants and paid an allowance of Rs. 9,500 per month; they will be confirmed if they complete a degree in education within five years. Another 50,000 youth will be given six months public service training and paid a Rs. 8,000 allowance; on completion of training they will also be confirmed. The allure of state employment for rural youth has in the past been a strategy for patronage oriented election mobilisation.

Indeed, the 1.3 million-strong public service continues to be the secure route of employment for the rural population as existing alternatives, including precarious employment in the garment industry or migrant labour to the Middle East, are far less appealing. The Budget claims to have given a major pay hike for the public servants bringing their total income including the basic salary and cost of living allowance to Rs. 25,000. However, in reality, the total increase is merely Rs. 3,124 amounting to just 14.3 per cent. After years of agitation and rising costs of living this pay hike is more suited for election rhetoric than economic relief.

The total allocations in the Appropriation Bills from 2014 to 2015 have increased by 18 per cent. However, the allocations for the Ministry of Provincial Councils and Local Government have the highest increase of 58 per cent. Significantly, this massive increase is not reflected in the allocations for the Northern Provincial Council, which has increased only by 18 per cent. Unlike the Northern Provincial Council, the other Provincial Councils and the patronage politics they embody for the regime will become important for election mobilisation.

The Department of Divineguma Development, which has now absorbed Samurdhi, has a hefty allocation with plans to circulate more loans and provide subsidies. Numerous pension schemes have been proposed, for farmers and garment workers alike. The logic of these proposals is to placate the rural population that has been long ignored by policy makers.

Infrastructure development

Rather than recurrent expenditure, which includes salaries and subsidies, it is capital expenditure that is reflective of the direction of multi-year development programmes. Over the last many years the significant increase in capital expenditure has been for infrastructure and urban development. In the 2015 Budget, public investment in infrastructure, excluding the education and health sectors, is Rs. 576 billion, amounting to about a third of total revenue; public investment in roads and ports alone is Rs. 200 billion. Even for next year, not to mention throughout this decade, the expenditure on roads is much higher than all the hand outs for next year coming out of the Treasury Votes; public servants salary hike is Rs. 50 billion, the youth employment programme is Rs. 7 billion and the recruitment of 50,000 steachers is Rs. 4 billion.

According to the Budget, the construction industry “is growing at 17 per cent due to expanded investments in infrastructure as well as higher private investments in urban property development, housing, tourism facilities, new factories and other logistics.” The growth of the economy is clearly construction led growth. A real estate bubble centred on malls, hotels and a beautified Colombo has taken hold and there are few prospects for returns on investment from the massive construction investment in infrastructure.

On the other hand, starting with the 2014 Budget, there has been an increase in capital expenditure in education and health, amounting to Rs. 120 billion in the 2015 Budget. Investments have been characterised by upgrading of hospitals and the building of university townships and hostels. These investments while welcome, become questionable with the increasing talk of privatisation of education and healthcare, including efforts to commercialise education and expand medical tourism.

Dynamics of financial crisis

The major economic policy thrust in 2014 has been toward financial consolidation. Banks and finance companies are merged in the hope that they can raise larger debt in the international capital

markets. Financialisation propelling capital flows, and absorbed in infrastructure and urban development, has been the engine of the high growth neoliberal development regime in place in the post-war era.

The Government has floated sovereign debt on the order of US$5 billion over the last five years, and commercial banks, including Bank of Ceylon, National Savings Bank, DFCC and Sri Lankan Airlines, have also floated dollar denominated debt totalling $2 billion in the international capital markets in the last two years. There have also been moves to promote the stock market in the post-war years; market capitalisation is now Rs. 3 trillion and net foreign inflows are Rs. 100 billion, making assets even more liquid and capable of melting into thin air. The Government is proud of the large foreign reserves nearing $10 billion necessary to cushion imports, but they fail to mention that these reserves are the result of high interest short-term debt subject to what Keynes referred to as the "animal spirits" of capital flight.

The other flows of foreign incomes necessary for Sri Lanka's balance of payments are also on shaky ground. The projected foreign earnings from tourism this year are only $2.5 billion. In fact, hotel occupancy was down in 2012 pointing to the fickleness of the tourist industry. Hence, in the 2015 Budget, there is increasing rhetoric and proposals to develop the IT sector for the future. In reality, Sri Lanka's imports are sustained by migrant workers, garment workers and plantation workers. Migrant workers are projected to remit $7 billion this year and $15 billion by 2020. Such a remittance economy is also prone to shocks related to the political developments in the Middle East.

With financial liberalisation, what flows in can flow out as easily. And indeed, this has been the case for many countries during the Asian economic crisis of the late 1990s and the crisis in Southern Europe that began a few years ago. Capital inflow for infrastructure and urban development gives the semblance of prosperity, but quickly turns into crisis when the state is unable to roll over old debt with new debt in the face of capital flight; according to the Budget Estimates debt repayments this year totalled Rs. 840 billion with an additional Rs. 425 billion for interest payments. During such crisis, the Government, at the mercy of the IMF, will face strict conditions for bail out. Privatise, privatise, privatise will be the call.

The state will be compelled to privatise education and health to raise assets for debt payments. The question is whether this is that election
budget before a crisis?

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P.S.

* http://www.sundaytimes.lk/141102/business-times/panic-or-economic-crisis-125202.html

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