

# Sri Lanka budget 2022: Brace for Austerity!

Tuesday 11 January 2022, by [SKANTHAKUMAR Balasingham](#) (Date first published: 4 January 2022).

**Basil Rajapaksa's maiden Budget for 2022 received parliamentary approval on 10<sup>th</sup> December 2021, as to be expected in a legislature comfortably controlled by the government, with 157 votes in favour and 64 against. However, this was no reason for comfort on the government side, who must at least now have fathomed that their [Aladdin has no magic lamp](#) with which to arrest their plummeting popularity.**

More importantly, most Sri Lankans evinced little interest and even less confidence of any reversal of the relentless assault by the ongoing economic crisis on their living standards, following the Budget Speech on 12<sup>th</sup> November.

During a global public health emergency, to which Sri Lanka is not immune, government spending on the health services is only marginally increased in comparison to 2021. The Ministry of Health's allocation is LKR153.5 billion, which is significantly less than that for highways (LKR250.2 billion) [1]. 12 years after the end of the internal war, the 'defence' budget is the largest single head of expenditure, allocated the equivalent of LKR15 [2] out of every LKR100 in government spending. Expenditure on education contracts to LKR127.5 billion, when school students have missed out on almost two years of learning as many struggled with access to, and affordability of, smart devices and internet data, and adaptation to online learning. It is about half the allocation for mega road infrastructure projects. The priorities and their rationale are self-evident.

Price controls on essential goods have been abandoned and consumers left to the mercy of the rice, milk powder, dhal, flour, sugar, gas, and other cartels that have a stranglehold on distribution. The supply chain issues for vegetable and other farmers that have hit producer prices hard are untreated. There are no salary increases for public sector workers – except schoolteachers who won their demand after 100 days of continuous strike action – although there is promise of attention in 2022 to salary anomalies. The retirement age for public sector workers is raised to 65 years, in a move to defer entitlement to pension and reduce the number of those eligible, in a rapidly ageing society. A contributory pension scheme for those without old-age benefits is to be introduced; but there are no details on its design, costing, and operationalisation.

There is nothing by way of ongoing social support for daily-waged workers who lost their income, and others who lost salaried jobs during the pandemic, nor for micro and small business operators, including in the devastated tourism industry. Contrary to the Finance Minister's claim, recurrent expenditure on social welfare in 2021 was not 20% but merely 4% [3] of the budget. Almost 100,000 men and women migrant workers were repatriated during the pandemic after months of suffering in the Middle East and elsewhere. Their contribution to foreign exchange remittances reaching USD7.1 billion, that are Sri Lanka's economic lifeline, are forgotten altogether.

A new fund for social security targeted at LKR140 billion is proposed in 2022, based on levy of 2.5% on businesses with an annual turnover of over LKR120 million. However, even assuming this target is achieved, how long will it take for funds to reach those in immediate need? The non-registration of informal economy workers, the absence of transparent selection criteria, and long-overdue legal and

institutional reform to the social security system, are not encouraging of any short-term relief.

Even before the pandemic, 23% of the population were officially poor enough to qualify for cash-transfers (*Samurdhi* benefits), which amount to a pittance. Since COVID19, at least 500,000 [4] more people are the 'new poor': more likely to be urban than rural, have formerly worked in industry and services, and better educated than the 'old poor'. While a new law to secure equal opportunities for persons with disabilities is promised, without action and resources to combat discrimination in access to education, employment, public services, and common spaces, it will be more empty rhetoric.

Before turning to some take-aways from Budget 2022, what is its political thrust when the government is besieged by a complex of structural and external crises – as well as self-induced and internal ones, notably in agricultural production following the hasty ban on import and application of chemical fertiliser [5]?

## **The Rajapaksa B(r)and**

Opening the Budget Speech with a potted and partial account of the Rajapaksa's of the Ruhunu region, Basil Rajapaksa's message to his party is that only association with, and leadership by, the band of brothers can guarantee electoral success.

"The decade from 2005 to 2015 was the most critical 10-year period of Independent Sri Lanka" [6]. According to him, the three main responsibilities of government are national security, development, and social welfare – the sequence in priority is telling, as is the detachment of 'development' from social protection – and his modest submission is that "President Mahinda Rajapaksha (sic) is the only leader who fulfilled all three of these responsibilities in the same era".

Clearly not averse to over-egging the pudding, the Minister of Finance goes on to identify the three "incomparable political factors" of the present government as being firstly, Mahinda Rajapaksa's "political leadership"; secondly, the invention of the Sri Lanka Podujana Peramuna ('Peoples Front') – of which Basil Rajapaksa is architect and strategist of course; and finally, the overwhelming popular vote for current President, Gotabaya Rajapaksa.

In this digression around the Medamulana walauwa, Basil Rajapaksa seeks not only to assert the Rajapaksa's place in the political annals of post-colonial Sri Lanka, but also to position himself as a contender within the family in the succession to the incumbent.

## **Five Challenges**

In a welcome shift, the Minister thereafter turned to five global challenges impacting Sri Lanka: (i) widening socio-economic disparities between rich and poor; (ii) slow progress in achieving the 2030 Sustainable Development Agenda; (iii) environmental catastrophes owing to global warming; (iv) reduced international development assistance; and (v) challenges to adaptation in COVID19.

So far so good. However, how does his government intend on meeting these challenges? Sadly, there is no indication from what follows in the Budget Speech that it has the wherewithal to do so.

[Sri Lanka's richest 20% of households command nearly 53% of all income, while the poorest 20% only receive 4.5%.](#) The growth in income and wealth inequalities in Sri Lanka since 1978 [7] is rooted in the growth model to which the present government is no less committed than its predecessors. The proposed one-off levy on big business and the super-rich (25% on taxable income in 2020/2021 of over LKR2 billion) is no paradigm change. Even if it is followed through in full, which is doubtful, it is only a palliative and no substitute for redistributive reforms that are the only

durable route to a less unequal society.

The backsliding on the 17 global Sustainable Development Goals will not be halted without a reallocation of resources between and within the Global North and South; the subordination of the market to social ends; and the marginalisation of regressive and xenophobic ideologies and social forces. None of these is on the horizon in Sri Lanka.

Certainly, the 2022 Appropriation Act approved by Parliament on 10<sup>th</sup> December 2021, does not herald the requisite investment and political commitment towards public goods and infrastructure to 'leave no one behind'. The bloated military budget, poor capital expenditure allocations for health, education, and social services, entrenchment of patriarchy and majoritarian nationalism, as well as democratic decay, run counter to socio-economic and environmental progress, and gender equality. Without a moratorium on external debt servicing and downsizing of the military, where is the fiscal space for the public investment to recover from COVID19?

While the Minister waxed on Sri Lanka's alleged reverence towards its rich biodiversity - promising to increase forest cover by 30%, protect catchment areas, remove invasive plants from water bodies, and conserve wildlife - the Centre for Environmental Justice [8] concluded that 2020 marked a low point in environmental protection with increased land-grabbing, accelerated destruction of forest (contributing to 318 elephant and 122 human deaths), heightened killings of rare and endangered animals, and increase in sand mining eroding riverbanks and degrading riparian eco-systems.

This was compounded in 2021 by the marine environment and fishing industry disaster of the ['X-Press Pearl' fire and sinking](#). The rhetoric on renewable energy sources is reduced to the heavy investment in hydropower (with its downstream effects on agricultural and rural access to water and aquatic resources), compared to solar, wind, and waves; and belied by the expansion of the Norochcholai power plant (coal imports increased by 8.8% in 2020), as well as prospecting for fossil fuels in the Gulf of Mannar basin.

Development assistance, in the form of grant aid or concessional loans, to lessen dependence on the international money market and borrowing at market interest rates and substitute for the slump in foreign direct investment (USD670 million in 2020 as compared to USD1,189 million in 2019) [9], is not forthcoming in significant volumes to Sri Lanka. Grant aid fell sharply to LKR5.3 billion in 2020 in comparison to LKR7.9 billion in 2019 [10] (before the change of government). Although the volume of global official development assistance [rose by 3.5% in 2020](#) in response to COVID19, Sri Lanka has not been a beneficiary. This is unlikely to change based on the political and economic direction of the current government, and the attitude towards it of donor countries in the Global North.

COVID19 adaptation requires a range of measures including digital transformation, regulation of working-from-home and platform work, and stringent safety and health protocols for workplaces including export industries. Instead of compelling internet service providers - whose profits have soared during the pandemic with increased demand for remote working, online education, and digital platforms for businesses and services - to widen access to devices and reduce costs of data; accelerate download speed; and develop digital infrastructure in rural and remote areas, the Telecommunications Regulatory Commission is tasked with financing the provision of fibre-optic technology covering all 10,155 schools across the island. This is a massive undertaking which will take many years at presently anaemic levels of public investment.

Now, what are some headlines from the Budget Speech?

## **A Deficit Budget**

Sri Lanka will continue to spend more than it earns. While the Finance Minister made much, quite reasonably, of putting a stop to seven decades of financing national budgets through borrowing, his 2021 estimates are that spending will be more than double that of income this year. The 2022 Budget expands public expenditure to LKR3,912 billion with a revenue target of LKR2,284 billion (50% higher than expected revenue in 2021).

While next year's deficit gap appears lower in comparison to this year's, the reality is that the quality of the revenue proposals including the medium-term timeframe to realise them, as well as the prolongation of the global COVID19 pandemic, guarantee a shortfall in the revenue forecast, while government spending inevitably spirals in response to a rising import bill particularly as the rupee inexorably weakens.

Even pre-pandemic, successive governments consistently over-estimated the anticipated revenue and under-estimated actual expenditure, to present a rosier-than-reality picture and to massage the budget deficit ratio downwards.

Curiously, the Minister's targets have a timeframe of 2027, when the term of his government ends in 2025. Why? Is it beyond the realm of possibility that the life of an unpopular and flailing government may be extended through the device of adoption of the Constitution under preparation; or referendum; or simply Executive diktat, disregarding legality and legitimacy? The maelstrom of health, economic, and political crises may provide the government with grounds for invocation of the 'doctrine of necessity'.

### **Export-Driven Economy**

The Finance Minister's answer to the crisis of a dependent capitalist economy structured for more than four decades around the export of ready-made-garments and bulk tea, and inflows of migrant worker remittances – predominantly through women's waged labour – and receipts from tourism, is to diversify and intensify export-led growth. Sri Lanka's main export markets have been the United States of America and the European Union (mostly apparel), followed by the Middle East and Russia (mostly tea).

In deference to the election manifesto and now [national development policy](#) of President Gotabaya Rajapaksa, replete with references to a "people-centric economy", the Budget Speech promises LKR1 billion for the development of rattan, clay-based products, brass, lacquer, masks, coconut shell, jewellery, stone carving, flax fibre, and Dumbara mat weaving; as well as investment of another LKR1 billion in handloom and batik production with the expectation of an export income of USD1 billion by 2025.

Textiles and apparel, gems and jewellery, rubber and rubber products, value-added tea, coconut and coconut products, fish and fish products, spices, processed food, fruit and beverages, ornamental flowers and plants, electrical and electronics manufacturing, boat manufacturing, and engineering products and services are apparently the new frontiers for export development. Services such as tourism, the information technology industry, business-process-outsourcing, and ports and aviation are to be expanded too. The catch is that this inventory is familiar. It finds repetition in past Budget Speeches [11]. However, there has been little to show for it.

### **Import Substitution**

The top three countries of origin for imports into Sri Lanka are China (22%), India (19.2%), and the United Arab Emirates (6.4%). To conserve foreign currency outflows, the government targets development of national industries in the areas of organic fertiliser, renewable energy, dairy milk,

sugar, and medicines. However, all of these require inputs (that is, imports) from abroad. These are increasingly unavailable as banks lack the foreign currency to sell for purchases from abroad; shipping and logistics costs soar; and the rupee tumbles in value, exponentially increasing the import bill, and making the cost of domestic production unviable. Further, almost halving of allocations to industrial development in 2022 [12] controverts a genuine intention to reorient the economy towards broadening and deepening domestic, especially manufacturing, production.

## **Local and Rural Development**

Looking ahead to prospective local government and Provincial Council elections, and to securing political advantage for governing party politicians, the government's expenditure proposals include allocations for "development projects" at the local level.

LKR3 million is allocated to each one of the 14,021 *Grama Niladhari* divisions across the nine provinces of the island. A village forum, consisting of religious leaders, community leaders, government officials, and local politicians, is to determine its use. Likewise, LKR4 million is allocated to 4,917 local government (*pradeshiya sabhas*, urban councils, municipal councils) institutions. There is no elaboration on the process or participants in the determination of its use.

While the Finance Minister claimed that the uniform allocation is evidence of non-discrimination based on political affiliation, the situation as he well knows, is that the vast majority of these seats and institutions outside of the Tamil-speaking majority North and East, are currently controlled by the ruling Sri Lanka Podujana Peramuna and its allies. Although modest in relation to the cost of construction even before kickbacks are factored in, these funds are primarily for electoral ends, rather than to "strengthen the rural economy".

The annual district development budget allocation to each Member of Parliament is increased from LKR10 to LKR15 million. While all parliamentarians regardless of party affiliation receive the same amount, as the government enjoys a near 2/3 majority in the current Legislature, most beneficiaries are government supporters. There is no rationale for an identical allocation when districts vary in size of population, geographical and resource characteristics, and socio-economic indicators. However, having these funds allow parliamentarians to be seen as personally delivering some improvements in their electorates, in association with their local political agents who are vying for provincial and local government seats.

Still, even with the additional allocation of over LKR19.8 billion to the 335 Divisional Secretariat divisions in the 25 districts, for rural livelihood development projects, all the above put together is matched by the whopping LKR85 billion diverted to the Office of the President for his *Gama Samaga Pilisandara* ('Dialogue with the Village') political outreach programme. Those who participated asked for local roads and public bus services, potable water and electricity supply, mobile telephone and internet connectivity, minor irrigation schemes to irrigate their fields, human-elephant conflict mitigation, and so on. Instead of routing allocations through the existing State institutions and agencies, the intent is to personally associate Gotabaya Rajapaksa with these initiatives in preparation for his re-election campaign in 2024.

## **Public Finance**

Now, how is all of this to be financed? As the Budget Speech explains, government revenue in Sri Lanka as a percentage of the size of the economy (as measured by gross domestic product) has been in decline since 1999. In 2020, it slumped to 9.2%, whereas Malaysia and Thailand are at over 20%. "Government revenue has come to a level which is insufficient to cover the day-to-day recurrent expenditure", the Minister starkly announced. Almost 58% of government revenue is absorbed by



salary payments to the [public sector workforce that grew to 1.528 million \(in a labour force that shrunk slightly to 7.999 million\) at the end of 2020](#).

While the Minister spoke of “structural change” to reverse the decline in government revenue, there was nothing in the Budget Speech that amounts to the radical reforms required to re-orient an economy with an undiversified and low-value addition export base, and heavily reliant on imports for everything from energy to food to raw materials in light manufacturing. Indirect taxes (on consumption of goods and services) which penalise the poor constitute 78% of total government tax revenue. This government, like its predecessors, evades tax reforms to shift the burden from the poor to the rich through direct taxation of income and profits, and maintains the corporate tax rate at the relatively low level of 24%.

Enhanced tax compliance; administrative reforms to the Inland Revenue Department; increasing sin taxes on alcohol and tobacco; confiscation of excess profits made by Perpetual Treasuries in the 2015 government bond scam; and squeezing public spending, does not amount to a solution to what the Minister described as “an unsolved economic problem”: closing the yawning gap between export income and import expenditure.

### **Public Spending and Public Sector**

To curb spending by government departments, the Minister proposes to issue warrants for expenditure on a quarterly basis, instead of annual warrants for expenditure. The effect of this will be to slow down capital expenditure by State institutions and enhance the Treasury’s capacity to redirect those funds over the course of 2022. In any case the State sector apart from the military, is starved of allocations for development projects. State agencies with assets of interest to the private sector will have to seek equity capital in return for divestment of control and management to mobilise funds for development activities.

[State-Owned-Enterprises](#), of which there are 527, have historically been subject to political interference and chronic mismanagement by regime cronies, and are a massive drain on the public purse (LKR75 billion in Treasury transfers) as well as sink for bank credit (LKR920 billion) in 2020 alone. The top five loss-making entities are the Ceylon Electricity Board; the Ceylon Petroleum Corporation; Sri Lankan Airlines; the National Water Supply and Drainage Board; and the Ceylon Transport Board. However, the Minister’s only response is that a “multi-disciplinary consultative committee” is to be constituted to “propose a strategic way forward”. In other words, another report destined for the long grass.

Playing on the electorate’s antipathy to traditional politicians, fuel allowances to Ministers (and government officials) are marginally reduced; and the qualifying period for a pension for parliamentarians and the President is increased from five years to 10 (two terms). However, the enormous charge on salaries to military personnel numbering more than [317,000 \(as of 2018\)](#) is ignored, as any reduction in numbers and down-sizing of scale, spread, and scope of its activities would run counter to the President’s belief in their efficacy for any task or role from COVID19 management to green agriculture, and undermine the patriotic credentials of politicians on both sides of the House.

The Minister of Finance had harsh words for the public administrative service, which has been routinely faulted by Ministers for the disaffection of the public with the government, owing to “rigid laws and regulations, and lengthy and outdated administrative methods and procedures”. This is significant as public officials from top-to-bottom in the public, State corporation, and semi-government sector, have been a solid core of support for the Rajapaksa’s since 2005. In fulfilment of the election manifesto pledge, [100,000 persons from low-income households were recruited to the](#)

[public sector in 2020; as were 60,000 unemployed graduates.](#)

The public service should not be “an impediment” to the “productive economy”, he said. It should be “efficient and effective” and become “courteous and client-centric”. His ideas to turn this around are a mishmash of New Public Management theory including digitalisation of public services; a “Client’s Charter”; Key Performance Indicators in appraisals – to the distribution of motorcycles, imported of course, to field officers (as done once before in 2014 in the run-up to the presidential election the following year).

## **Debt Burden**

Sri Lanka’s unsustainable burden of debt is crippling public finances at a time when government should be spending more and not less, to protect employment and livelihoods and provide relief to millions in destitution. In 2021, the government drew down foreign exchange reserves to honour debt payments of USD2 billion. In 2022, January and June respectively, loans of USD500 million and USD1 billion are due.

“[I]nterest expenditure on public debt has become the single largest expenditure item in the budget”, the Budget Speech grimly observed. To be more precise, out of every LKR100 in government revenue, almost LKR30 is siphoned to service the interest on public debt. Or to take another yardstick, out of every USD100 earned from exports of goods and services, USD33.50 is gobbled by debt-servicing.

Public debt is equivalent of 102% of national income. External or foreign debt as a proportion of total debt stock has reached almost 50%, the Minister noted. The depreciation of the national currency by LKR1, increases the debt stock by LKR50 billion, he claimed. As the [Sri Lankan rupee lost 10.1% of its value against the US dollar](#) between January and September 2021, one shudders to do the math.

The Minister was quick to blame the previous government for borrowing USD6.9 billion in between 15 months alone. Indeed, Verité Research confirms that Sri Lanka’s total debt stock rocketed by [42.8% between 2015 and 2019 but estimates that 89.8% of that increase is due to the interest cost on accumulated past debt](#), that is, incurred by its predecessors including the Mahinda Rajapaksa government between 2005 and 2014.

## **Missing Women**

52% of Sri Lanka’s population are women. Their visible paid labour in migrant domestic work, on production lines in export factories, and in the tea and rubber fields, sustains the monetised economy. Their unwaged work in family-farmed rice fields, vegetable and fruit plots, in home-gardens and livestock-rearing, sustains household consumption and reduces vulnerability to the vagaries of market supply and prices. Women’s unpaid labour in the home and the community, caring for children and other adults including the infirm and persons with disabilities, cooking, and cleaning; are integral to, and not apart from, the economy and society. Men’s participation in the labour force and ‘productive’ economy is on the backs of women in ‘reproductive’ work.

These women are missing from the Budget Speech [13]. Indeed, women qua women are absent. The only reference made to them is in relation to women’s entrepreneurship – in “hi-tec” (sic) agro-parks, and as “mini-supermarket” operators in villages – once again, making women work for the market rather than the market work for women.

Unsurprisingly, in its 2021 analysis of 12 key measures towards gender-responsive national budgeting developed by the Ministry of Women and Child Affairs in 2017, Verité Research concluded

that there had been no progress in 10 areas – including increased vocational education skills certification of women; increased enrolment of women in small and medium enterprise development financial incentive schemes; increased employment of returnee migrant women workers and aspirant migrant women workers – and only weak progress in the remaining two (including increased female labour force participation) [14].

## **IMF Programme**

In the run-up to the Budget Speech, the common sense spanning the neoliberal Right through to the centre-Left, has been that an International Monetary Fund (IMF) programme of debt-financing with policy conditionalities is Sri Lanka's only way out of imminent economic disaster.

Basil Rajapaksa was cautious not to explicitly align himself with this point-of-view. However, subsequently he has more than hinted that he has no principled opposition to such a programme [15]. He knows that the Sri Lanka Podujana Peramuna parliamentarians can be carried easily. In any case, this would not be the first time in recent memory that the members of the present government, in an earlier configuration, scurried to the IMF [16].

Still, the Budget Speech made some gestures in the direction of the IMF, such as budget deficit reduction, controls on government spending, freeze on public recruitment, State-Owned-Enterprise reform, and export-driven growth. He admonished the critics of privatisation and foreign equity, not to be “obsessed with the ownership” of public entities. He alluded to boosting the entry of foreign capital into health, education, banking, and other financial services.

What does the case for the IMF boil down to for its advocates? This government, nor any other for that matter, cannot be trusted to swallow nor administer to society the market cure for Sri Lanka's statist ills. It must be made to do so. An IMF structural adjustment programme provides, to their mind, the framework; policy tools, signal of confidence to creditors including fund managers, insurance and pension funds, banks, and others, and not forgetting the muscle.

Up to now, no evidence is presented as to how the structural defects of Sri Lanka's economy, that made recourse to the IMF inescapable in their view, will be rectified through IMF conditionalities. Where are their success stories, after [40 years of austerity programmes across the Global South](#)? What is their response to analysis on how the IMF's prescriptions [aggravate economic crisis, widen inequalities, and decimate the standard of living of vast swathes of society](#), such that heavily-indebted poor countries are never free of it? What is their diagnosis for the failure of previous IMF programmes in Sri Lanka to find the path to their desired end of fiscal consolidation?

More immediately, what is the volume of funds available from the IMF relative to the balance of payments deficit, the scale of debt service payments, and the public investment required to support socio-economic recovery from COVID19? What scope does the IMF have to restructure Sri Lanka's international sovereign bonds and lenders outside the Paris Club (donor States who are no longer Sri Lanka's primary creditors)? What assurance is there that an IMF programme isn't primarily about bailing out banks and other creditors, instead of the national economy?

## **Conclusion**

In an unexpected endorsement during the Budget Speech, Basil Rajapaksa advised Parliament to study the 1970-1971 budget speech of N.M. Perera of the Lanka Sama Samaja Party, who was Finance Minister of the United Front (*Samagi Peramuna*) governing coalition led by the Sri Lanka Freedom Party and including the Communist Party of Ceylon between 1970 and 1975.

The section highlighted by the current Finance Minister opens with N.M. Perera outlining the three



major commitments of the United Front government's first Budget: (1) "... to lay the foundation for an irrevocable transition of the economy to a socialist one while preserving ... democratic traditions"; (2) to maintain those social welfare measures which are an integral part of our social fabric ... to provide the necessities of life at reasonable prices to the mass of our people"; and (3) to a programme of rapid economic growth of sufficient magnitude to absorb a sizeable proportion of the unemployed ..." [17]. There is no reason to believe, based on the class nature and political perspectives of the current government, that Budget Speech 2022 is similarly motivated.

Instead, the current Minister of Finance appears impressed by N.M. Perera's analysis of the chronic balance of payments crisis, with growth in value of imports outpacing the growth in value of exports, making necessary external sources of financing (including from the IMF) to manage the deficit. The remedial measures proposed in the 1970-71 budget speech were three-fold: (1) balancing the budget - "[W]e must raise adequate revenue to meet recurrent expenses. We should endeavour also to have some reasonable surplus for capital expenditure as well"; (2) "large-scale savings by all sections of the people"; and (3) "... increase our export income by widening the area of non-traditional exports" [18].

Underpinning these objectives, N.M. Perera repeatedly emphasised that a "climate of austerity should be firmly established". Sacrifices would have to be made today for 'jam tomorrow' - but it was the "affluent classes" who would have to bear that burden. Basil Rajapaksa is preparing the country for greater pain in 2022 and beyond - with the promise of watalappam someday - except the classes in privation now and ahead are not the affluent.

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**P.S.**

Social Scientists' Association

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## Footnotes

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