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National Budget Sri Lanka: A Budget to Empower People

Chulanee Attanayake

Summary

Sri Lanka's 2019 Budget is significant due to several reasons. Before it was presented, the Budget was predicted to be a populist one as 2019 is an election year. Surprisingly, the Finance Minister presented a budget which is balanced; i.e. which continues its liberal economic policies as well as demands of the public. This paper analyses some key features of Budget 2019.

Introduction

The 2019 Budget is significant for two reasons: demonstrations against the government that took place across sectors, and the political crisis that happened in October 2018. In 2018, the public demonstrated its dissatisfaction against the government through their votes, protests and demonstrations. The Local Government Polls that took place in February 2018 brought victory to a brand-new political party backed by former President Mahinda Rajapaksa. The return of the former strong-man was seen as one way of citizens protesting against the unity government1 and their economic and development policies. Protests and demonstrations took place across sectors as the public voiced its frustration on unmet demands and broken promises; and demanded fair and practical solutions to burning issues such as cost of living, education, land issues, power shortages, agriculture, fuel prices and racial hatred.

Towards the latter part of the year, the country's political stability took a nosedive when the President unconstitutionally replaced the sitting Prime Minister with Rajapaksa. Even though the political crisis2 ended after about 50 days, it impacted the economy to the extent that investor confidence spiraled downwards, major credit rating agencies downgraded Sri Lanka and its currency depreciated to an all-time low. Despite the return of the status quo, fears of the investors and international funding agencies remain unchanged. As a result, Budget 2019 also has a role to win back credit financing agencies and investors.

In general, people's struggles are a direct consequence of a national budget which failed to address social and economic problems. Similarly, the economic and development policies

[1] After the Presidential Election held in 8 January 2015, a Unity Government was formed with an alliance between Sri Lanka Freedom Party (SLFP) of the President and the United National Party (UNP) of the Prime Minister

[2] Chulanee Attanayake and Roshni Kapur, "The End of Sri Lanka's Political Crisis", *ISAS Insights*, No. 529 (19 December 2018) https://www.isas.nus.edu.sg/wp-content/uploads/2018/12/ISAS-Insights-No.-529.pdf

proposed in a national budget will have an impact on investor attraction and credit financing. When Budget 2019 was approaching, it was naturally anticipated that the UNP-led government, having learnt its lessons from the events in 2018, would have provided solutions to address domestic public and international investor concerns.

This being the first budget of a UNP-led government post-crisis, it was an indicator of the government's long-term policy reforms and direction, as well as its preparation for the upcoming elections.

The budget presented by the Finance Minister Mangala Samaraweera on 5 March 2019, indicated that the government has attempted to meet the demands and interests of both the public and investors.

Budget 2019: Key Aspects

The Budget 2019 projects a total expenditure of LKR3.1 trillion (S$24.7 billion), which is 20.2 per cent of the GDP. It is an increase of LKR363 billion (S$2.74 billion) from the provisional expenditure of the previous year.[3] The budget deficit for the year 2019 is projected as 4.4 per cent of GDP. It would be important to identify where the increased spending goes, and for which areas they are being used.

The highest allocation of expenditure of the Appropriation bill is for the Ministry of Defense, which is LKR393.1 billion (S$2.97 billion). It is 18 per cent of the total expenditure, out of which 91 per cent is recurring expenditure which amounts for salaries and wages. The Budget has focused on investing in infrastructure, especially for public transport. As such, LKR5000 million (S$37.86 million) has been allocated for the Colombo City Light Rail Transit project, connecting Malabe to Fort, with a further allocation of LKR10,000 million (S$75.72 million) for road infrastructure.

Liberal Economic Policies

The Budget indicates that the government has not abandoned its liberal economic policies. The reform agenda, which has been in operation for the past year is continuing in 2019, yet at a much slower pace. The government is proposing a private sector growth-led model in which local entrepreneurs are given more attention.

It proposes measures that would accelerate the export industry in the country. For instance, the Export Market Access Scheme and the National Export Strategy, which were proposed in 2018, are to be continued in 2019 with more budget allocation. The two programs are allocated LKR400 million (S$30.3 million) and LKR250 million (S$1.9 million) respectively. The National Quality Infrastructure Strategy is proposed as a public-private partnership to promote the upgrading of technical facilities for product development.

[3] Annexure IV, Summary of the Budget (2015-2019), *Budget Speech 2019*, Ministry of Finance Sri Lanka

In the meantime, import trade has been given a boost through a further continuation of the phasing out of para-tariffs within a 5-year period.[4] The Ports and Airport Development Levy for machinery and equipment[5] has been proposed to be reduced to a maximum of 2.5 per cent[6] , and an accelerated Cess tax reduction program for intermediate goods for construction, tourism and manufacturing is proposed over a 3-year period.

While the phasing out of the para-tariff will admittedly boost imports and have a positive impact on trade, it will challenge domestic industries due to the flood of competitive products into the market. As preventive measures, introducing anti-dumping legislations; creating the Trade Adjustment Program and the Trade and Productivity Committee under the Ministry of Development Strategies and International Trade for import quality assurance and safeguarding the local industries; and the exclusion of 10 per cent of HS codes considered as sensitive items from para-tariff phase-out, are proposed.

The government's continued economic liberalization is further sought through in the FTA with Singapore, and to pursue on-going negotiations for FTAs with India, China and Thailand. The proposals to enter into the largest Asian markets through the "Break into India" and the "China Market Entry Strategy" emphasizes the continuation of the open economic policies of the government.

Election Budget: Giving Something to Everyone

However, the budget has not completely forgotten that this is an election year. Hence, there are multiple proposals which promise free goods for every sector of the society.

One example is the government's ambitious accelerated rural development project named "Gamperaliya". The project began in July 2018, targeting all districts in the country with the purview of accelerating economic growth in areas retarded by adverse weather conditions.[7] A total of LKR65.8 billion (S$498.3 million) was invested, targeting to address everyday issues.[8] The 2019 Budget proposed an expansion - especially to develop the religious places. Allocations to develop places of worship have increased from LKR500,000 to LKR1 million (from S$3787 to S$7572). Another LKR300,000 (S$227) has been allocated to establish solar panels in temples and LKR200 million (S$1.5 million) to develop the Madu

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[4] The Budget proposes to phase out all the HS codes with a Cess import to be phased out within a five years period.

[5] The machinery and equipment subjected for this proposal are that of HS Code Chapters 84 and 85. See: "Sri Lanka National Imports Tariff Guide Based on HS 2012 Edition", http://www.customs.gov.lk/public/files/tariff/TARIFF%202013.pdf

[6] In 2016, Sri Lanka increased the Port and Airport Levy to 7.5 per cent from 5 percent as per the Ports And Airports Development Levy (Amendment) Act, No. 21 of 2016.

[7] "PM launches 'Gamperaliya' accelerated rural development program", *Daily FT* (16 July 2018), http://www.ft.lk/news/PM-launches--Gamperaliya--accelerated-rural-development-program/56-659148. Accessed 14 March 2019

[8] Gamperaliya projects were targeting irrigation, rural roads, schools, sanitary facilities and playgrounds, *Sathi Pola* (weekly fair), green park, electricity, renovation of religious and archaeological sites, housing development, and to issue land deeds and entrepreneurship in all districts of Sri Lanka.

Church in Mannar. It is no secret that the current government is not very popular among the Buddhist clergy, hence the promise of development of temples is welcomed.

Another such populist proposal is the increase of allowances for government officers, retired government officers and the armed forces. Accordingly, LKR40 billion (S$302 million) is allocated to increase government salaries by LKR2500 (S$15) per person; LKR12 billion (S$90.9million) to correct pension anomalies of retired government officers. Moreover, the armed forces allowances have been increased by LKR5000 (S$38)while the rent allowance increased by 100 per cent.

While these proposals are all attractive, the question lies as to whether the government has the ability to fulfill these promises. When the current government came into power in January 2015, the public sector was promised of a massive pay hike, which helped them in winning the parliamentary polls in August the same year. It was this unfulfilled promise, coupled with the rising cost of living caused by multiple direct and indirect taxes, resulted in pecuniary woes in the public sector. This was reflected in the Local Government Polls in 2018 (the only election held since August 2015). Thus, the promised allowance in this budget reflects the government's desperation to win back the public sector prior to the election.

Boasting of being a welfare state, Sri Lanka is already providing multiple public services at free of charge, and have multiple safety net schemes which are becoming difficult to afford over the years. The current Public Servants Pension Scheme (PSPS) consists of about 1.4 per cent of GDP. Apart from this, there are other non-contributory social pension schemes and elderly benefits that are provided to the elderly without receiving any revenue back. Hence, a mild increase in the PSPS has a significant impact on the country's expenditure.

While meeting the housing needs of the country is to be applauded, the proposed loan schemes should be carefully viewed for their feasibility and realistic rates. In its attempts to ensure housing for every citizen in the country, the government proposed several ambitious plans including housing loan schemes. The Urban Re-generation Project and Model Village Programme targeting the urban and rural community and the special housing project for the war-affected northern and eastern provinces, to build 15,000 brick and mortar houses, are both commendable initiatives. It is the two housing loan schemes, 'Home Sweet Home' and '*Sihina Maliga (Dream Home)*', that are of concern. While the government is launching a concessionary loan of up to LKR10 milllion (S$75,721), at a 6 per cent interest rate with a repayment period of 25 years, for the newly married first-time home buyers through the 'Home Sweet Home', the '*Sihina Maliga*' is a loan scheme for the migrant workers in which 75 per cent of the interest cost will be borne by the government.

Commendable Proposals to Empower People

The 2019 Budget should be given credit for its commendable proposals for empowering the society. As the budget read "Enterprise Sri Lanka: Empowering People and Nurturing the Poor", the government has proposed measures to ensure its objective.

Enhancing Female Labour Force

One of the most impressive proposals is the measure taken to improve the female labour force participation. Despite having an educated female labour force, only around 30 per cent of them are participating in the economic development of the country. Research done over the years identified issues related to caregiving in a family as the main reason. Hence, the proposals to improve child and elderly care facilities in the budget are welcoming. It proposed that private sector companies with more than 250 employees to provide childcare facilities for their female employees. Selected schools will be supported for After-School and Vacation Centres (ACVC) within the school itself. Government will subsidize the wages of mothers on maternity leave so that the small firms can afford to pay wages to its female child-bearing employees without interrupting its business activities. It is further proposed to allow part-time work, flexible work hours and work from home to encourage women to work without having to compromise their domestic caregiving responsibilities.

Encouraging Small and Medium Enterprises

In order to withstand fiscal and economic challenges, including a debt crisis, the government is encouraging the promotion of an entrepreneurial culture among the masses. As such, it launched the Enterprise Sri Lanka project[9] in June 2018 to encourage small and medium entrepreneurs to provide loans at concessionary interest rates to accelerate their business growth and upscale the economy of the country.

Continuing the entrepreneurship culture, the 2019 Budget further proposed to establish a fund of LKR500 million (S$3.7 million) under the Central Bank of Sri Lanka to provide guarantee to the SMEs as the small entrepreneurs are often faced with the challenge of providing collateral as demanded by the banks. Furthermore, the SMEs will be linked with government institutions such as the Export Development board, the Information and Communication Technology Agency of Sri Lanka, the Industrial Technology Institute of Sri Lanka, universities and the private sector for capacity development and procurement of SME products.

[9] Since its launch, a significant number of loans have been extended to entrepreneurs. According to reports, a sum of LKR58 billion (S$439 million) has been disbursed among 30,000 small and medium business people.

Conclusion

Despite having elections ahead, the Budget 2019 has to be appreciated for withstanding populist demand and providing a balanced budget. While the proposals are lucrative, the issue however is whether it would remain mere rhetoric.

The realization of the budget proposals depend on the government's ability to finance and implement them. In the past few years, the government has failed in fulfilling its budgetary promises.

The current government lost its popularity due to its inability to fulfill its budgetary promises over the past three years. Following the defeat at the Local Government Polls in 2018, both parties to the then Unity government were complaining against one another for the lack of implementation. If there was any obstacle due to different opinions during the previous years, this year would not be so as the budget was presented under a single party government.

However, the fiscal and economic constraints will be a major challenge in fulfilling these promises, especially the promised free-goodies for the people. Given Sri Lanka's debt condition, there is genuine concern as to where money will be found for a plethora of social welfare programmes proposed in the budget.

The other issue will be the practicality and ability of implementation. According to the Colombo-based Verite Research, the government has only managed to implement 8 per cent of the budget proposals as of mid-2018. The increasing political crisis towards the latter part of the year further hindered any chance of implementing the rest of the proposals. As the Budget was presented in March 2019, there is only nine months left for the government to fulfill its ambitious plans.

On the other hand, some of the budgetary proposals are too single-minded to be real. For instance, the proposed Gamperaliya rural development project expects to allocate funds for each Divisional Secretariat to fulfill the infrastructure needs of the villages. As such, the implementation agencies would be the local government. As of the Local Government Polls last year, a majority of the local governments are governed by the Sri Lanka Podujana Peramuna, the new political party supported by Mahinda Rajapaksa. In this context, it is a question if they would implement the project successfully, especially during an election year.

The budget is commended to be a balanced and progressive budget than it was expected to be. The success of it will depend on the ability to implement it.

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Dr Chulanee Attanayake is a Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). She can be contacted at

chulanee@nus.edu.sg. The author bear full responsibility for the facts cited and opinions expressed in this paper.

Institute of South Asian Studies | National University of Singapore | 29 Heng Mui Keng Terrace, #08-06 (Block B), Singapore 119620
Tel: (65) 6516 4239 | Fax: (65) 6776 7505 | www.isas.nus.edu.sg | http://southasiandiaspora.org