

Sri Lanka's Economic Crossroads: MP Harsha De Silva's Unveiling Critique of Budget 2024

- Blatant violation of the Fiscal Management Responsibility Act in Budget 2024, with budget deficit exceeding 5%.
- Staggering increase in poverty affecting 3 to 7 million people, highlighting a critical issue overlooked in the budget.
- Critique of the government's "Oxymoron" economic approach and the absence of a comprehensive plan for making Sri Lanka an advanced economy by 2048.
- Proposal for robust measures to combat corruption, including the implementation of the STAR program.
- Emphasized reservations regarding the Macro-linked Bond (MLB) proposal, raising questions about potential benefits favoring external investors over provident fund workers during debt restructuring.
- Argued that a 30% haircut is inadequate for ensuring debt sustainability, underscoring the need for a more comprehensive and equitable approach.
- Urgency for transparency, accountability, and a visionary approach for a new economic trajectory.

In a compelling address to Parliament, Dr. Harsha de Silva delivered a comprehensive critique of Budget 2024, shedding light on critical issues that demand urgent attention. The Chairman of the Committee on Public Finance (COPF) meticulously outlined the shortcomings and concerns surrounding the economic policies proposed in the budget, providing a stark contrast to the optimistic claims made by the government.

Budget Violations and Soaring Poverty:

Dr. de Silva commenced by pointing out a blatant violation of the Fiscal Management Responsibility Act (FMRA) within Budget 2024, citing an alarming budget deficit exceeding 5%. He substantiated his concerns by referencing reports from LirneAsia, the World Bank, and UNDP, revealing a staggering increase in poverty affecting 3 to 7 million people. The multi-dimensional vulnerabilities highlighted by UNDP underscored the severity of the crisis, with over 50% of those affected categorized as multi-dimensionally poor.

Supreme Court Verdict and Civic Rights:

MP Harsha expressed gratitude towards petitioners who played a pivotal role in the recent Supreme Court verdict on Economic Crimes. He emphasized that the court's rigorous discussion identified key figures, including Mahinda Rajapaksha, Gotabaya Rajapaksha, Basil Rajapaksha, Ajith Nivaard Cabraal, and PB Jayasundara et al, as responsible for the economic downturn, pushing over 4 million people into poverty. He called for a parliamentary discussion on the civic rights of those found guilty of bankrupting Sri Lanka.

Inflation and Cost of Living Realities:

Contrary to the President's claims of stabilized inflation and economic equilibrium, MP Harsha cited former deputy governor WA Wijewardene's statistics. The cost of living for a family of four,

he revealed, had surged from LKR 91,880 in January 2021 to LKR 175,490, illustrating a 91% increase in the last two years.

Oxymoron Government and Missing Roadmap:

Labeling the current government as an "Oxymoron," MP Harsha drew a parallel to Shakespeare's Romeo & Juliet. In this case, 'being together is such a sweet sorrow'. He raised questions about the legitimacy of the government's economic vision. MP Harsha presented a scientific analysis of the growth targets set by the government. To achieve advanced economic status by 2048, he highlighted the necessity of a growth rate of 6.4% from 2027 to 2048. He challenged alternative claims, stating that even growing at 3% would delay reaching advanced economy status until 2068.

MP Harsha dissected Budget 2024, emphasizing three critical pillars for Sri Lanka's recovery: eradicating corruption, creating economic opportunities, and ensuring social equity. The seasoned politician delved into each point, offering a pragmatic assessment and proposing viable alternatives.

Eradicating Corruption and Improving Governance:

MP Harsha underscored the need for robust measures to combat corruption across various sectors. He criticized the absence of tangible anti-corruption initiatives, citing examples like the cricket scandal, sugar tax scam, and fraudulent activities in the liquor industry. The parliamentarian questioned the government's inaction and proposed the implementation of the Stolen Assets Recovery (STAR) program and the establishment of an independent prosecutor's office, as outlined in the SJB blueprint.

Creating Economic Opportunities:

Moving to the second point, MP Harsha highlighted the importance of creating economic opportunities for youth in rural areas, empowering entrepreneurs, supporting small & medium businesses, and ensuring fair prices for farmers. He argued that eradicating corruption alone is insufficient and advocated for a broader economic vision.

Ensuring Social Equity:

In his exploration of the third key aspect, MP Harsha shed light on the complexities of fiscal consolidation and expenditure reduction, emphasizing the profound implications for social equity. Despite the President's focal point on revenue-based fiscal consolidation, concerns surfaced regarding the comparatively meager attention given to reducing overall expenditure.

He acknowledged challenges in curtailing expenditure, particularly in vital sectors like Health and Education, allocated a modest 1.7% of GDP. However, he expressed reservations about funding directed to loss-making SOEs, exemplified by Sri Lanka Airlines, which sought 110 billion rupees to settle liabilities to Ceylon Petroleum Corporation (CPC) recently. This raises concerns about fairness in comparison to the total expected revenue from PAYE of 100 billion rupees annually or essential needs like children's uniforms, a significant 27 times less.

Criticism was directed toward the extension of tax breaks, citing the Strategic Development Projects (SDP) Act and recent Supreme Court rulings on preferential tax treatment for associates, resulting in substantial losses to the Treasury.

A historical lens revealed a stark decline in government revenue from 20-21% of GDP in 1994 to a current low of 8%, framing a narrative of economic transformation. The disparity between IMF revenue targets (15% of GDP by 2026) and the anticipated 10.2% for 2023 was underscored, calling for a substantial 2.5% increase, equivalent to 1229 billion rupees.

However, concerns were articulated regarding proposed tax changes, especially their disproportionate impact on citizens through heightened consumption taxes. For example, the VAT hike from 15 to 18% and the removal of VAT exemptions for items like petrol, diesel, gas, and fertilizer could drive inflation up and consumption down. A plea for fairness and transparency resonated, advocating for the disclosure of tax changes to Parliament, ensuring public awareness amidst talks of government giveaways.

Proposed Alternative PAYE Taxation Model:

MP Harsha proposed the government implement his revised PAYE tax structure, significantly reducing the burden on professionals while still achieving the expected income. The MP lamented the lack of response from the Ministry of Finance to their proposal, contrasting it with the president's call for cooperation.

In a dramatic climax, MP Harsha concluded that the proposed tax burden is excessively high, risking a decline in consumption, business failures, and an exodus of professionals from Sri Lanka. MP Harsha's impassioned critique serves as a rallying cry for comprehensive reforms, emphasizing the urgency of addressing corruption, fostering economic growth, and ensuring social justice to pave the way for Sri Lanka's resurgence.

Widening the Tax Net:

Acknowledging the government's efforts to broaden the tax net, MP Harsha highlighted initiatives such as the requirement for a Tax Identification Number (TIN) to open a bank account, obtain building permits, register vehicles, or renew revenue licenses. These measures, while commendable, set the stage for a broader conversation about Sri Lanka's economic trajectory.

Moving Beyond Stability to Growth:

MP Harsha stressed the imperative of transcending mere economic stability and transitioning towards sustainable growth. He referenced the International Monetary Fund's (IMF) expectation for Sri Lanka to achieve debt sustainability by 2027, emphasizing the challenges posed by a projected debt-to-GDP ratio of 104%, significantly exceeding the internationally accepted norm of 60%.

Debt-Interest Conundrum:

Expressing concern over the staggering debt-to-GDP ratio, Harsha underscored the potential ramifications, particularly the substantial interest payments. With interest payments for 2024 reaching a staggering 2651 billion rupees against revenue of 4127 billion rupees, he pointed out that Sri Lanka could become the world's top contributor to interest payments relative to government revenue.

Foreign Debt Restructuring and MLB Proposal:

Raising pertinent questions, MP Harsha inquired about the status of discussions with the Exim Bank of China and the agreement of the Paris Club, questioning the transparency of the process. He delved into the controversial Macro-linked Bond (MLB) proposal, expressing reservations about its potential benefits favoring external investors over the workers in provident funds who bore the majority of the burden during debt restructuring.

Transparent Dealings and Supreme Court Decision Fallout:

MP Harsha passionately urged authorities not to bind future administrations to what he perceived as an unjust deal with International Sovereign Bond (ISB) holders. Furthermore, he reiterated that a 30% haircut is insufficient for debt sustainability. He questioned the beneficiaries of specific bonds, including the \$500 million bond, and sought clarity on the ownership of Hamilton Reserve bonds amounting to \$250 million. The recent Supreme Court decision added further complexity, prompting Harsha to call for transparency in navigating the fiscal challenges.

Recapitalization and Privatization:

Expressing concerns about the stability of the banking system, MP Harsha questioned the lack of information on the promised asset quality review by the President. He delved into the budget's allocation of 450 billion rupees for bank recapitalization in 2025, emphasizing the President's acknowledgment that this amount may be insufficient. The proposed 20% privatization of the Bank of Ceylon (BOC) and People's Bank was commended as a move towards stability and accountability, free from political influence.

Future Debt Issuance and Forex Reserves:

MP Harsha painted a challenging picture for Sri Lanka's future debt issuance, projecting a debt of USD 68 billion by 2027. He raised critical questions about sourcing the required funds through taxes and the conversion of tax revenue into dollars. Addressing this, he emphasized the necessity of increasing forex reserves and advocated for a growth-oriented production economy.

Building Bridges for Growth:

In a sharp critique of the current government's approach, MP Harsha highlighted the need for a mindset shift to achieve higher growth rates. He underlined the importance of breaking down barriers and reducing red tape to connect with global production networks. Referencing opposition to the Sri Lanka/Singapore Free Trade Agreement (FTA) by certain political entities, he advocated for an open-minded approach to foster economic growth.

Encouraging Investments for Capital Formation:

Drawing inspiration from JR Jayawardene's initiatives in the 1970s, MP Harsha emphasized the role of investments in building capital, especially in a country with low savings. He urged the creation of an environment conducive to entrepreneurs, promoting foreign direct investments as a means to fuel economic growth.

Innovative Solutions for Forex Generation:

MP Harsha proposed creative solutions such as building wind farms in Mannar and connecting Sri Lanka to India's grid to earn valuable forex by exporting power to South India. He challenged conventional thinking, advocating for an open mindset in generating forex through innovative and collaborative projects.

Conclusion:

MP Harsha de Silva's comprehensive address underscores the intricate challenges facing Sri Lanka's economic landscape and proposes strategic reforms to navigate the country towards equitable growth. His impassioned plea for transparency, accountability, and a visionary approach serves as a rallying cry for a new economic trajectory.