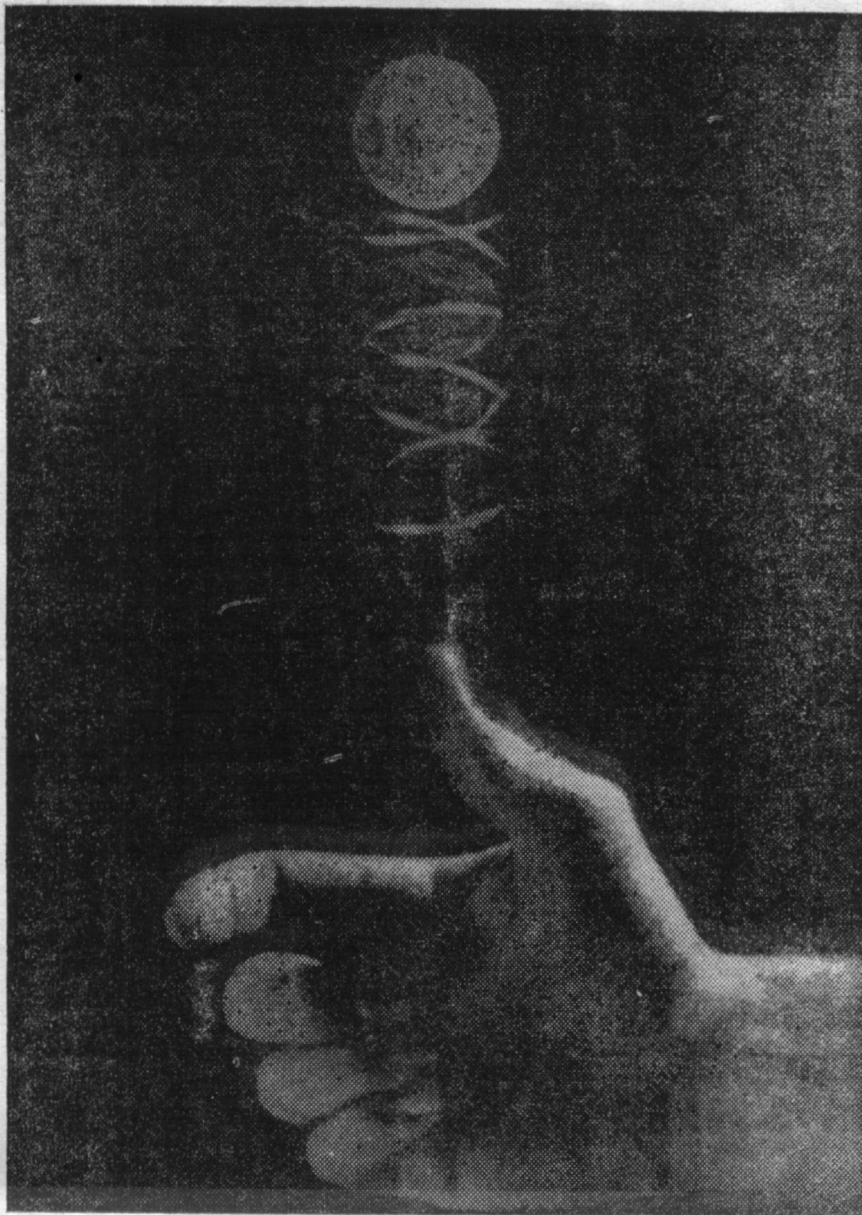


336.12 * 1982

3



BUDGET 1982

The fifth Budget of the Government, presented on November 12th this year, reflected clearly the impact of four years of attempting the 'unique experiment' of "quick economic development and growth, while preserving parliamentary democracy, an open society and a free economy". More apparent were the dangerous trends that have arisen from launching the biggest development programme in the history of this country with limited local resources, particularly in a deteriorating international environment; and in this context the urgent need to

adopt the most appropriate mix of economic, social and financial measures.

Taking a look at this significant statement of policy and Sri Lanka's current economic situation our Special Report carries a broad overview of resource mobilization for the 1982 Budget, the Finance Minister's assessment of the state of the economy and his Budget Proposals for 1982; followed by excerpts from speeches of three opposition speakers during the Budget Debate which is intended to give a sampling of the general criticisms of the Budget.

A major theme in the Minister's statement was his attempt to contain expenditure within available resources. In this regard he warned that the budgetary situation is "most unsatisfactory" and emphasised "We cannot possibly allow it to continue. If expenditure continues to increase far beyond our resources like this, there would soon be unmanageable inflation and unsustainable deficits in our balance of payments, which would jeopardise the chances of achieving the government's development objectives within the framework of a free and liberal economy".

'82 BUDGET AND RESOURCE MOBILISATION

The total government expenditure in 1982 is estimated at Rs. 40.5 billion which represents an increase of one-third over the average of 1980-81 and almost 100 per cent over the average of 1978-79. Underlying this sharp growth in public expenditures are the ambitious public investment programme (which in 1982 would absorb nearly one-half of the total public expenditure) and the high cost of inflation in the country.

The government revenue, however, has failed to show a similar increase. The estimated government revenue for 1982 at Rs. 19.3 billion accounts for less than one-half of the total expenditure requirements. Hence the budgetary gap amounts to an unprecedented sum of Rs. 21.1 billion. The magnitude of this deficit is seen in the fact that it is equivalent to 52 per cent of the total government expenditure, 15 per cent of the estimated Gross Domestic Product of 1982, and 110 per cent of the estimated total government revenue of the year.

In the past four years (1978-81), the actual budgetary gap has considerably exceeded the original estimates. In 1981, the revised estimates of the budget deficit show an increase of 20 per cent over the original estimate. In 1980, the actual was as much as 82 per cent higher than the estimated figure. In 1978 and 1979, the differences were 62 per cent and 40 per cent respectively. Going by these past performances, it is quite probable that the actual budgetary gap in 1982 would be higher than the estimated Rs. 21 billion.

The rise in the budgetary gap over the estimated levels, year after year, was a result of unanticipated increases in government expenditure, particularly capital expenditure, reflecting the high inflation in the economy. Cost escalation, in particular in construction, has raised the cost of capital projects to several times their originally estimated levels. This situation reached almost crisis proportions in 1980 when the total

government expenditure (actual) rose by as much as 43 per cent over the original estimates and the budgetary gap rose to over 20 per cent of the GDP of that year.

The sharp rise in public expenditures over the past few years has been accompanied by a highly successful attempt at mobilising foreign resources. Foreign financing has

constituted the main source of financing the growing budgetary gap. The proportion of the budgetary gap financed from this source amounted to 66 per cent, 52 per cent and 40 per cent in 1978, 1979, and 1980 respectively. In 1981, it is estimated at 58 per cent. In 1982, as much as 67 per cent is expected to be financed by resort to foreign financing. In

1978 and 1979, it was possible to finance the balance part of the deficit by using domestic non-bank sources. Hence the inflationary impact of deficit financing was relatively small. Beginning 1980 however the resources available from non-bank (hence non-inflationary) sources have fallen far short of the resource needs of the balance deficit. Hence recourse

Looking Back at 1980

"Revolutionary" changes in policy were introduced with the Budgets of 1977 and 1978 — the economy was liberalized a vast array of controls were dismantled, a more realistic and unified exchange rate was introduced, there was a cut back on consumption and subsidies in order to release resources for investment, incentives for production and exports and a climate intended to encourage foreign investment were provided

One result of these policy changes was that in 1978, in the first full year since they came into effect, Sri Lanka achieved a growth rate of 8.2 per cent in real terms; while in 1979 and 1980 growth rates continued at 6.2 per cent and 5.5 per cent. The average rate of growth of 6.6 per cent in these three years was more than doubled the average growth rate during the 7 years of the previous government. These growth rates were achieved in the face of very adverse external circumstances.

WHAT WENT WRONG

A realistic and grim picture was painted by the Minister of Finance in his budget speech on November 12th about what went wrong with the economy. In his view "After 1979, the world economic situation turned drastically against us. This was most unfortunate. As a result, 1980 and 1981 have been extremely difficult years for Sri Lanka World inflation, recession, energy prices, high interest rates, volatile exchange rates, adverse commodity prices, reduction in official development assistance and growing protectionism have affected us most severely. Never in the 2,500-year history of this land has Sri Lanka faced so many economic problems due chiefly to factors outside our control. Escalation of costs, both foreign and local, have compelled us, very much against our wish to scale down certain sectors of our development programme. If we had not done so at the correct time, we would have faced certain disaster".

There emerged in 1980 a major imbalance in the budgetary operations of the Government which in turn led to pressures on the balance of payments and on the domestic price level.

Growth in the industrial countries, as a group, slowed down sharply in 1980 — their growth rate falling to 1.4 per cent, well below the 3.5 per

cent annual average of 1970 to 1978. In fact, some countries, like the United Kingdom and the USA, had negative growth rates. These problems were further compounded by the rise in oil prices in 1979 and 1980. Oil prices, which fell in real terms by 9 per cent between 1975 and 1978, rose by 83 per cent in 1978-80. These are factors completely beyond our control. They have resulted in a serious deterioration of our economic situation in 1980. The adverse impact of these external factors was reflected in a sharp worsening of the country's terms of trade, which declined by 19 per cent during 1980. Costs escalated sharply, mainly as a result of the steep increase in import prices, as reflected in the increase of 43 per cent in the Import Price Index. As a result, voted estimates of expenditure had to be frequently revised upwards during the course of the year and it became extremely difficult to enforce fiscal discipline and adhere to strict budgetary control on the expenditure of certain departments and corporations. Additional expenditures incurred by Ministries, not previously programmed and provided for, had also to be met. Net supplementary estimates sent up by various Ministries during the year amounted to as much as Rs. 6,290 million. As a result, total government expenditure rose by 41 per cent from Rs. 21,521 million in 1979 to Rs. 30,343 million in 1980. While capital expenditure rose by 54 per cent recurrent expenditure rose by 32 per cent.

The growth of revenue, however, seriously lagged behind the growth of expenditure. The sluggish growth of revenue was, of course, largely a result of factors outside our control, such as the drought which prevailed in 1980 and the adverse trends in our commodity prices. Another contributory factor was a conscious policy decision on the part of the Government to reduce the tax burden on the private sector as a means of stimulating investment and employment.

The result was a very large increase in the overall budget deficit, from Rs. 8,791 million to Rs. 16,274 million. The resources available to finance this deficit were foreign finance aggregating Rs. 6,736 million and domestic borrowing from non-bank sources amounting to Rs. 2,696 million. The Government had, therefore, no alternative to borrowing over Rs.

7 billion from the banking system to meet its commitments in 1980.

The sharp decline in external banking assets reflects the deterioration in the balance of payments, affected as it was by the adverse terms of trade and the very high level of aggregate demand stimulated largely by the budgetary operations of the Government. The value of our imports in 1980 exceeded the value of our exports by Rs. 16,132 million (SDR 758 million). This was the highest ever deficit in our trade balance, and compares with a deficit of Rs. 7,288 million (SDR million) recorded in the previous year.

On the price front, the annual average of the Colombo Consumers' Price Index registered an increase of 26 per cent in 1980 as compared with the increase of 11 per cent in 1979. The Wholesale Price Index too showed a higher increase in 1980, the annual average rising by 34 per cent compared with an increase of only 9 per cent in 1979. The relatively higher increase in prices in 1980 was the combined effect of several factors. These include demand pressures generated by increased government spending, price "movements" resulting from the depreciation of the rupee, increases in some tax rates, the upward adjustment of prices of some subsidized goods and services, an increase in prices of petroleum products and price hikes in overseas markets".

BRIGHTER SIDE

The Minister emphasised that despite the problems we encountered in 1980 with the Budget, with the balance of payments and the price level, our economy showed a high degree of resilience and flexibility. Because of the outward-looking policies of our Government, the economy was able to adjust itself more readily to the external shocks. As a result, the economy grew by 5.5 per cent in real terms in 1980. Admittedly, this rate was lower than the high growth achieved in the two previous years. Nevertheless, this performance, viewed in the light of the deteriorating international environment and the poor performance of the plantation sector, was a very commendable one. "It is clear that the economy of Sri Lanka made substantial gains in 1980 despite the adverse external environment. Its overall performance, in the present bleak international climate is one in which the Government can take a legitimate pride", stated the Minister.

TABLE I

Government Budget (Rs. Millions)

	Government Expenditure	Government Revenue	Budgetary Deficit	
			Original	Actual
1978	18,853	11,688	4,423	7,165
1979	21,521	12,730	6,298	8,791
1980	30,343	14,068	8,920	16,274
1981	30,407	16,176	11,846	14,231
1982	40,479	19,319	21,160	

1978—80: Actual; 1981 Revised estimates; and 1982: Estimates.

to bank (inflationary) borrowing has become an important feature of the fiscal picture. In 1980, as much as Rs. 7 billion was borrowed from the banking system (principally from the central bank) through the issue of Treasury bills. The statutory ceiling on Treasury bill issue which stood at Rs. 3 billion at the beginning of 1980 was successively raised to Rs. 13 billion by July 1981. In 1981, the recourse to bank borrowing has been reduced (in relation to 1980) but remains substantial at an estimated Rs. 3762 million, accounting for 26 per cent of the budget deficit of the year.

All indications are that bank borrowing would continue to be an important source of deficit financing in 1982. In the budgetary estimates for 1982, the Finance Minister has left an unfinanced gap of Rs. 2970 million (amounting to about 2 per cent of the estimated GDP for 1982) which would presumably require bank borrowing. The Finance Minister also proposed that the ceiling on Treasury bill issue be raised by a further Rs. 5000 million. Moreover, the target set for non-bank domestic borrowing (at Rs. 4000 million) appears somewhat optimistic when judged by the performance of the past years. The main sources of non-bank borrowing are the Provident funds, National Savings Bank and the insurance funds, and the contributions from these non-bank sources has been less than Rs. 3000 million during 1980—81. In this context, a sharp increase in the resources available from these sources (upto Rs. 4000 million in 1982) appears optimistic since any failure to realise this target would raise the extent of bank borrowing.

Domestic resource mobilization from non-inflationary sources has emerged as an important constraint in budget making in recent years. During 1977—79, attempts were made to contain current expenditures by reducing subsidies. By 1981, the scope for further cuts in current expenditures had become restricted as substantial reductions had already been made in subsidies. More over, government revenue has displayed low elasticity with respect to economic growth and inflation. In the context of liberal tax incentives offered to private enterprise, the tax system has failed to capture a fair

share of the new incomes generated in such sectors as transport, construction, trade and commerce which have experienced high growth in recent years. Direct taxes could be expected to make a higher contribution to government revenues only after about 1983 when the five-year tax holidays come to an end. On the other hand, export taxes (which contributed 30—40 per cent of the total tax revenue in recent years) had to be successively reduced to protect producer margins in the face of escalating domestic costs and the lower export prices. Hence the relative importance of export taxation is likely to decline in the future years. It was in this context, that a greater reliance began to be placed on indirect taxes, in particular the Business Turnover Tax (BTT), as an important means of raising additional resources. Indirect taxes account for about 90 per cent of the additional tax revenues arising from taxation proposals in the 1982 budget. The major source is the BTT which is expected to provide as much as Rs. 1500 million or over 70 per cent of additional tax revenues. The BTT was made into a comprehensive tax covering both imports and domestic manufactures. In addition, BTT has been extended to cover all goods except a few articles such as infant milk foods, fertilizer, crude oil and exports. Stated the Finance Minister: "Some of these are items of mass consumption but I feel there is no alternative to taxing goods which are articles of mass consumption if additional resources of the magnitude have to be mobilized. This is the price we have to pay for development and employment". However, apart from the inflationary impact of such taxes, increased reliance on indirect taxes, (particularly in the context of liberal tax concessions for private enterprise, the richer sections of the society) cannot but create serious implications on equity.

In Summary, the pre-budget picture for 1982 is as follows:

(i) Recurrent expenditure	:	=	19,499
(ii) Advance Account Receipts	:	+	100
		—	19,399
(iii) Revenue	:		17,809
		—	1,590
Current Account Deficit	:		19,492
(iv) Capital Expenditure	:		
		—	21,082
Overall Budget Deficit			

FINANCIAL YEAR 1982

In the context of the Government's firm commitment to the maintenance of the basic welfare measures such as medical services and education, the Minister stated that recurrent expenditures cannot be pruned down. Recurrent expenditure will rise from Rs. 16,557 million in 1981 to Rs. 19,499 million in 1982.

Capital expenditure, which was estimated at Rs. 13,850 million in 1981 was expected to rise to Rs. 19,492 million in 1982. The Minister emphasised that he had decided to hold down capital expenditure as the major means of containing total government expenditure within available resources. In fact the bulk of the estimated capital expenditure in 1982 would be for on going projects. The Government's two lead projects of Mahawell and Housing will absorb about 46 per cent of the estimated expenditure.

The estimated revenue for 1982 at existing tax rates will be Rs. 17,809 million, an increase of Rs. 1,827 million over 1981 revenue. Import duties are expected to increase by 23 per cent, BTT by 24 per cent and income taxes by 25 per cent. Export taxes on the other hand, are expected to decline by 6 per cent because of the duty adjustments made in 1981 consequent to the decline in export prices.

The Minister also announced that he would expect greater self-financing and contributions to revenue from the public sector institutions. In this regard he stated 'Public corporations have in the past been recipients of large sums of money from the Budget to finance their development and expansion programmes. As a rule, this Government has decided that these institutions should generate adequate internal resources to finance their investment programmes. The Government has further decided that trading and manufacturing corporations, embarking on new investment programmes, should pay the Government a minimum dividend of 10 per cent on capital employed. I expect a total contribution to government revenue of Rs. 200 million on this account. I also expect a net receipt of Rs. 100 million on Advance Account operations because of the reduced scale of operations by the Food Commissioner.'

PROPOSALS

The following were the Finance Minister's budgetary proposals:

1. Public Servants' Emoluments

"The Government also appointed a Salaries Review Committee to study the salary structure of the Public Service and make recommendations for revision of salaries. The committee has recently submitted its recommendations to the Government. I am happy to announce that the Government has accepted the major recommendations of the committee.

One of the recommendations of the committee is the payment of a cost of living allowance changing with changes in the Cost of Living Index. The committee has taken the year ended September 1981 as the base period, during which the average of the Cost of Living Index was 360. The recommendation is that the allowance should change at the rate of Rs. 2 per point change in the index above this base figure. The allowance for any month is to be based on the index for the previous month. I propose to pay this allowance commencing with the month of November 1981. Based on the index for October 1981 the allowance for November 1981 will be Rs. 62. This allowance will also be paid to local government employees and pensioners.

Another major recommendation of the Salaries Review Committee is that all the ad hoc allowances which have been approved from time to time for public servants should be abolished and incorporated into a single consolidated salary scale for each grade in the Public Service. The committee has further recommended that the 140 different salary scales which now exist in the Public Service should be simplified and rationalized to fit into segments of 25 new master salary scales. In the process of conversion from the old to the new scales no government servant will get an increase of salary of less than Rs. 45 per month. When this is added to the new cost of living allowance, the total increase in the emoluments of every public servant will be at least Rs. 107 per month. As the cost of living rises or falls, there will be automatic changes in the cost of living allowance.

The detailed procedures for adjusting public servants' salaries to the new salary scales are now being worked out, and the new scales will be brought into effect from January 1982. Notwithstanding the present financial constraints, I am providing a sum of Rs. 1,000 million in the 1982 Budget for implementing these recommendations of the Salaries Review Committee.

2. Domestic Agricultural Sector

We have increased the guaranteed price of paddy in stages from Rs. 32 in 1977 to Rs. 57.50 per bushel from September this year. The Government has also decided to increase the floor prices of a number of other subsidiary food crops such as red onions, chillies, Soya Beans, gingelly, green gram, kurakkan and maize with effect from January 1982.

3. Plantation Sector

TEA

The f.o.b. price of tea, which remained reasonably stable during 1980 and the first half of 1981 at around US \$ 2. per kilogramme, has fallen by nearly 25 per cent and currently is just above US \$ 1.50 per kilogramme. This slump in international price seriously undermines the viability of the tea industry despite the depreciation in the exchange rate which has enhanced rupee earnings. I propose, therefore, to adjust export duties to meet increase in costs and to provide the necessary margins to the tea producer. The new duties will come into effect from midnight today:

- (a) The rate of export duty on bulk tea will be reduced from Rs. 10.50 to Rs. 8.00 per kilogramme and on packeted tea from Rs. 8.50 to Rs. 6.50 per kilogramme. The rates of export duty on tea bags and instant tea are presently very low and, therefore, there will be no change;
- (b) At present the advalorem sales tax is levied on all teas fetching a price of over Rs. 18.00 per kilogramme. The price is computed on the monthly sales average of the factory. The tax is at a uniform rate of 20 per cent of the excess over Rs. 18.00. In order to afford further relief, I propose not to levy this tax on teas sold below Rs. 22.00 per kilogramme. The excess of the monthly sales average over Rs. 22.00 per kilogramme will be taxed at 35 per cent. These adjustments in the sales taxes will apply to sales effected in the month of November 1981, and thereafter.

The net loss in revenue on account of these changes in export duty and sales tax will be around Rs. 380 million.

The replanting performance in the tea industry is still behind target. I, therefore, propose to increase the replanting subsidies to estates in the private sector as follows:

- High-grown and medium .. from Rs. 10,000 to Rs. 12,500 per acre
- Low-grown from Rs. 8,000 to Rs. 10,000 per acre.

In the case of State-owned plantations, the bulk of the replanting expenditure is being financed under World Bank and Asian Development Bank assistance. The Government itself is providing, as a grant, part of the cost of the development expenditure. In view of this, there is no need to increase the replanting subsidy in respect of these organizations. There are adequate reserves in the Tea Cess Fund to finance the extra cost of replanting subsidies.

RUBBER

Although there has been some improvement in the rate of replanting in recent years, it is necessary to step up the rate to make good the neglect of earlier years. I accordingly propose to increase the replanting subsidy from Rs. 6,500 to Rs. 7,500 per acre, and the new planting subsidy from Rs. 2,750 to

Rs. 9,750 per acre. Mr. Speaker you will note that the rate of subsidy for new planting has been substantially increased in order to expand the rubber acreage in suitable new planting areas. Various studies have indicated that the demand for rubber is likely to exceed production by the end of the decade. It is, therefore, essential that Sri Lanka steps up the rate of replanting and new planting in order to derive maximum advantage from this development. As in the case of tea, the new rates of subsidy will apply only to estates in the private sector. The State rubber sector will, however, continue to get the current rates of replanting subsidies. They will also benefit from replanting programmes financed by the Asian Development Bank.

The present replanting cess will not be adequate to meet the increased rates of subsidy. I, therefore, propose to increase the cess from 50 cents to 75 cents a kilogramme. This necessitates an adjustment of the export duty, and the revenue loss is expected to be Rs. 30 million.

COCONUT

During the course of the year, I have reduced the duty on desiccated coconut and also removed the export duties on coconut oil and fibre bales. These measures were taken due to a slump in the world prices for kernel products and fibre. To assist the industry further, I now propose to remove the duty on mattress fibre (twisted) and to introduce a sliding scale of duties on coconut products which will respond automatically to changes in international prices. The new duties will come into effect from midnight today. At current prices these changes will result in a revenue loss of Rs. 5 million. The duty structure has been so designed that producers should get around Rs. 1,450 per 1,000 nuts. Under the new duty structure, when there are increases in international market prices of kernel products, both the Government and the producer will share in the extra receipts, unlike as at present where the State absorbs the entirety.

I also propose to increase the various subsidies in this sector as follows:

- Under-planting Subsidy / Replanting Subsidy from Rs. 2,250 to Rs. 3,000 per acre. New Planting Subsidy from Rs. 2,750 to Rs. 3,500 per acre. Under-cropping Subsidy for Cocoa from Rs. 1,500 to Rs. 2,250 per acre. Under-cropping Subsidy for Coffee from Rs. 1,375 to Rs. 2,125 per acre. Under-cropping Subsidy for Pepper from Rs. 1,875 to Rs. 2,625 per acre. New planting in home gardens from Rs. 28 to Rs. 35 per palm.

The additional cost of this proposal is estimated at Rs. 15 million.

4. Fertilizer Credit Scheme for Tea and Rubber Sector

Mr. Speaker the Government is aware that small holders in the plantation sector face considerable difficulties in financing the cost of fertilizer application. As a way of overcoming this, a credit scheme with the participation of the Central Bank and the State Banks was started in the coconut sector as a pilot

project. This is proving to be successful in meeting the credit needs of the small-holder.

It has now been decided to extend this scheme to tea and rubber small-holders. Under this scheme, it will be possible for smallholders to obtain loans up to Rs. 10,000 on personal guarantees supported by two sureties acceptable to banks. Loans will be available at the rate of Rs. 1,000 per acre for tea and Rs. 450 per acre for rubber. These amounts are based on the recommended fertilizer use. The loan will carry a grace period of 3 months in the case of tea and 6 months in the case of rubber and is repayable in 18 months with interest at a preferential rate. Loans of over Rs. 10,000 will also be granted against the mortgage of the land or the leasehold rights.

5. Recurrent Votes

Under Recurrent Votes, I propose to provide a total of Rs. 600 million for distress relief payments, additional interest payments and certain other contingencies. This sum also includes an allocation of Rs. 50 million to the Ministry of Social Services to enhance the rates of public assistance payments. I have already proposed salary increases to public servants and benefits to farmers. It is nothing but fair that I should also make provision for the truly indigent in our society.

6. Capital Votes

Mr. Speaker, I propose to provide an additional Rs. 750 million to the Mahaweli Programme. The Kotmale Dam contract is being finalized now by the Ministry of Mahaweli Development. This together with some other adjustments in the provision for the Accelerated Mahaweli Programme, will need this additional Rs. 750 million. A sum of Rs. 300 million is required to provide working capital and other pre-operating expenses of the Fertilizer Manufacturing Corporation. A team of experts is now re-examining the viability of this project. Additional provision of Rs. 100 million to meet compensation payments to former owners of Government acquired undertakings. Rs. 25 million for preliminary local expenses in respect of new aided projects and Rs. 150 million for repayment of foreign loans and other expenditures are also required. These additional provisions will increase the capital votes by Rs. 1,325 million.

7. Energy Conservation Fund

It is also proposed to set up an Energy Conservation Fund under the Ministry of Power and Energy to finance research studies relating to new technology for use of renewable sources, and to undertake energy audits to avoid waste and losses and ensure better output use. Besides, the fund will also create the necessary public awareness for energy conservation by dissemination of information through the mass media. All public contributions to this fund will be exempt from taxes, and I propose to make an initial contribution of Rs. 5 million from the Consolidated Fund.

The effect of the measures that I have proposed so far is as follows:

(a) Recurrent Votes—			
(1) Provision for wage increases	...	Rs. 1,000 Mn.	
(2) Coconut replanting subsidy	...	Rs. 15 Mn.	
(3) Other provisions	...	Rs. 600 Mn.	1,615 Mn.
(b) Capital Votes —			
(1) Mahaweli Programme	...	Rs. 750 Mn.	
(2) Fertilizer Manufacturing Cor	...	Rs. 300 Mn.	
(3) Compensation to Government Acquired Undertakings	...	Rs. 300 Mn.	Rs.
(4) Other items	...	Rs. 100 Mn.	1,325 Mn.
Total increase in expenditure	...	Rs. 175 Mn.	2,940 Mn.
(c) Reduction in Revenue —			
(1) Rubber duties	...	Rs. 30 Mn.	
(2) Coconut duties	...	Rs. 50 Mn.	Rs.
(3) Tea duties	...	Rs. 380 Mn.	460 Mn.

These proposals would have the effect of increasing the overall budget deficit by Rs. 3,400 million to Rs. 24,482 million. Foreign finance that would become available in 1982, mainly by way of Project Loans, Commodity Loans and Grants, has been estimated at Rs. 14,190 million. A sum of Rs. 4,000 million could also be raised by the issue of Rupee securities to the domestic non-bank sector. We will then have an unfinanced gap of Rs. 6,292 million.

TAX PROPOSALS

DIRECT TAXES

1. Surcharge on Income tax and Wealth tax.

The surcharge on income tax will be different from the surcharges which have been levied in the past. The surcharge will be on a progressive rate schedule and only the more affluent taxpayers will be called upon to pay it. The surcharge will not be levied on companies and individual whose taxable income does not exceed Rs. 25,000. The surcharge will be levied on income tax and wealth tax payable for the year of assessment 1981-82 as follows:

2. Tax Incentives

There has been a drop in the revenue collected from direct taxes in recent years. One of the main reasons for this drop is the provision of numerous tax holidays as incentives for investment. I, therefore, propose to have a cut-off date for approvals for tax holidays and to fix this

(a) Income Tax:

(1) Companies, bodies of persons, etc. — Where the taxable income exceeds Rs. 25,000 and does not exceed Rs. 50,000	Where the taxable income exceeds Rs. 50,000	5% of the income tax payable
(11) Individuals:—	Where the taxable income exceeds Rs. 25,000 and does not exceed Rs. 50,000	10% of the income tax payable.
	Where the taxable income exceeds Rs. 50,000 and does not exceed Rs. 200,000	5% of the income tax payable
	Where the taxable income exceeds Rs. 200,000	10% of the income tax payable
		15% of the income tax payable.

I, therefore, propose to subject small companies to the normal rate of tax of 50 per cent on the excess of their taxable income over Rs. 250,000 per annum.

(b) Wealth Tax:

A surcharge of 10% on the Wealth Tax payable. These surcharges will bring in additional revenue of Rs. 200 million.

date as 31st March 1983. Approvals granted up to this date will hold good only if meaningful steps are taken within one year from the date of approval. The removal of the tax holiday would not apply to export-oriented enterprises licensed by the GCEC.

3. Exemption of profits arising to foreign contractors

There is provision under Section 22 of the Inland Revenue Act for the exemption from income tax of the profits accruing to foreign contractors, under certain specified circumstances. There is no justification for continuing to exempt such profits. This provision was introduced at a time when Sri Lanka did not provide an attractive climate for investment and when there were only a few Double Tax Relief Agreements.

I, therefore, propose to repeal Section 22 of the Inland Revenue Act.

4. Small Company Relief

The existing provisions define a small company as one whose issued capital does not exceed Rs. 500,000.

Resident companies other than quoted public companies pay tax at 50 per cent of their taxable income, while quoted public companies pay tax at 40 per cent.

Instances have come to light of companies earning high incomes which maintain their issued share capital at a figure of less than Rs. 500,000 in order to benefit from the concessionary rates of tax.

I, therefore, propose to subject small companies to the normal rate of tax of 50 per cent on the excess of their taxable income over Rs. 250,000 per annum. A small company which is a quoted public company would however, continue to pay tax on the present rate schedule applicable to small companies even if its taxable income is over Rs. 250,000.

5. Foreign entertainers and artistes

At present there is no provision in the Inland Revenue Act to compel an employer or a sponsor to withhold a percentage of the payments made to foreign entertainers, artistes, etc., for tax purposes. In order to prevent any loss of revenue by the non-payment of tax by these persons, I propose to make suitable amendments to the Inland Revenue Act so as to empower an employer or sponsor to withhold 33 1/3 per cent of the payments due to these categories of persons against their tax liabilities.

6. Minors' Extended Deposit Schemes

Several banks have started deposit schemes whereby the deposit made on behalf of minors are payable with interest to the beneficiary after a period of 20 years or more.

- (a) the banks should be required to deduct tax at 15 per cent on the interest element from the amount payable on maturity or at the time of withdrawal;
- (b) the tax so deducted should be deemed to be a final levy.

7. Interest payable under the Land Reforms Act

Under the Land Reform (Amendment) Act, No. 39 of 1981, interest at 10 per cent is payable on compensation due to the previous owners of lands taken over by the Land Reform Commission. Interest income is liable to income tax on an accrual basis. It will not be practicable, I, therefore, propose that—

- (a) the interest payable at the rate of 10 per cent under the Land Reform Law should be treated as income arising in the year in which the interest is actually paid;
- (b) the Land Reform Commission should be required to deduct tax at 10 per cent from the interest payable;
- (c) the tax so deducted should be deemed to be a final levy.

8. Non-Resident Foreign Currency Accounts

With a view to making Non-Resident Foreign Currency Accounts more attractive, I propose that, as in the case of wealth tax, the interest on these deposits should be exempt from income tax both during the period in which the holder of the account is non-resident and for a further period of three years after he becomes resident.

9. Exemption of earnings abroad

In recent years, several resident consultancy firms have been engaged in rendering services abroad for payment in foreign currency. These resident companies and partnerships too should be granted a tax exemption similar to what is available to individuals, which would act as an incentive for them to bring back their foreign exchange earnings to Sri Lanka. I propose to make the necessary changes to the Inland Revenue Act.

TURNOVER TAX AND IMPORT DUTY

1. Turnover Tax on Imports of Manufacturing businesses

The new scheme which will take

effect immediately, a turnover tax will be imposed on most of the imports. This will be in addition to the present customs duty. However, where an imported item is used in the manufacture of goods or commodities in Sri Lanka, the turnover tax paid on the imported item will be deducted from the turnover tax payable by the manufacturer. Similarly, where a locally manufactured component is used in the manufacture of another item, the turnover tax paid on the component will be deducted from the tax payable by the final manufacturer. In other words, the tax levied on the manufacturer will only be on the value added. The new system will therefore, be more equitable and will provide a certain degree of relief to the local manufacturer. To provide further relief to the local manufacturer, I propose, with the introduction of the new turnover tax on imports, to reduce the Customs duty on machinery and essential raw material used in industry from the present level of 12 1/2 per cent to 5 per cent.

There will be only 3 basic rates of turnover tax, namely, 2 per cent, 5 per cent and 10 per cent.

The 2 per cent rate will apply to:

- Agricultural inputs;
- Building materials;
- Food items (other than infant milk foods which would be free of tax);
- Fishing boats and fishing nets;
- Handloom and pure cotton textiles;
- Petroleum and petroleum products;
- Pharmaceuticals (including ayurvedic preparations);
- Other manufactured items which are now subject to turnover tax at 1 per cent.

The 5 per cent rate will apply to practically all the other items. However, a very few items which are at present taxed at over 5 per cent will fall into the 10 per cent band.

The existing business turnover tax law contains a host of exemptions. There is no justification for these exemptions, and I propose to remove most of them. However, undertakings for the manufacture of desiccated coconut, copra, coconut fibre, coconut oil, crepe rubber, sheet rubber, block rubber, scrap rubber or tea, as well as undertakings for the cultivation of tea, rubber and coconut, will be gazetted as exempted businesses.

It also propose to exempt the following items from turnover tax:

- (a) Infant milk foods;
- (b) Fertilizer;
- (c) Crude oil;
- (d) Articles manufactured in Sri Lanka and exported by the manufacturer (excluding jewellery and gems);
- (e) Goods or materials which are imported and proved to the satisfaction of the Principal Collector of Customs to be goods or materials which would be used in the production in Sri Lanka of goods or commodities for export.

2. Banks, Finance Companies and Pawnbrokers

The banking sector has recorded a high rate of growth of 10 per cent in 1979 and 15 per cent in 1980. I propose to increase the rate of turnover tax on banks from 2 per cent to 5 per cent.

Finance companies are now liable to BTT at 5 per cent on their total receipts. In the new Turnover Tax Act the definition of turnover as applicable to finance companies has been amended to bring it in line with that applicable to banks. However I propose to increase the rate applicable to finance companies from 5 per cent to 10 per cent.

I propose to adopt the same definition of turnover so that pawnbrokers will hereafter be liable to turnover tax, as in the case of banks and finance companies, only on their income receipts. I propose, however, to increase the rate of turnover tax from 2 per cent to 5 per cent.

3. Advertising

Mr. Speaker, during the past few years there has been a significant increase in advertising expenditure and the newspapers have benefited from this increase. I, therefore, propose to increase the rate of turnover tax on the advertising receipts of newspapers and periodicals from 5 per cent to 10 per cent.

4. Construction

In the case of contractors in the construction industry, the rate of turnover tax is being increased from 2 per cent to 3 per cent of the total value of the contract. In the case of architects and consultants, the rate of turnover tax is being increased from the present level of 5 per cent to 10 per cent. The rate for the other professions will remain at 5 per cent.

5. Hotel Sector

The hotel owners have also been given very liberal income tax concessions so that the large profits made by them are not subject to tax for periods ranging from five to ten years.

I am confident that hotels can easily pay an increased rate of turnover tax. I, therefore, propose to increase the rate of turnover tax on hotels from the present level of 15 per cent to 20 per cent.

The rate of turnover tax applicable to luxury restaurants will be increased from the present rate of 2 per cent to 10 per cent.

6. Import duty exemption-Government Departments

I am of the view that the duty exemption which is at present available to government departments and to some corporations on imports made by them should be removed. If Government departments and corporations paid normal duties, we would have a more realistic picture of government expenditure and costs of various projects.

EXCISE DUTIES

1. Liquor

The increase in excise duty on liquor with effect from midnight today, will result in the following price increases:

Molasses arrack	Rs. 3 per bottle
Coconut arrack	Rs. 5 per bottle
Processed arrack	Rs. 10 per bottle

Country-made foreign liquor Rs. 10 per bottle

In the case of imported liquor, the new turnover tax will increase the price of a bottle of whisky by approximately Rs. 30 and the price of a bottle of brandy by approximately Rs. 35 to Rs. 40.

2. Cigarettes

I propose to increase the tobacco tax by Rs. 41 per kilogramme, from Rs. 241 per kilogramme to Rs. 282 per kilogramme with effect from midnight today. This increase in tobacco tax will have the effect of putting up the retail prices of all brands of cigarettes by 5 cents per cigarette.

The import duty on raw tobacco will be increased by the same amount so as to equalize the duty incidence.

3. Beedies

I am, considering the imposition of an excise duty on beedies. The necessary amendments to the Excise Ordinance to give effect to this proposal will be introduced in Parliament before the end of this year.

4. Beer

The current excise duty on beer amounts to Rs. 12.50 per litre or approximately Rs. 9.40 per bottle of beer. The duty on beer in 1978 was Rs. 4 per litre and was increased to Rs. 6.33 per litre in January 1979 and to Rs. 8.50 per litre in February 1980. Thus, within a space of three years the duty has been pushed up by more than 300 per cent. There is definite evidence that there has been consumer resistance to the high price of beer, which at present is retailed at around Rs. 19 per bottle ex-foreign liquor shops. The demand for beer, which is not a hard liquor like arrack, has been on the downward trend, mostly due to the sharp increase in prices.

I propose to reduce the excise duty on beer from its present level of Rs. 12.50 to Rs. 8.50 per litre.

LICENCE TAX FEES

1. Liquor Licence Fees

Licence fees on liquor shops and beema salawas are at present collected by the Government Agents and passed on to the local authorities.

I propose that the issue of a licence should, in addition to a licence fee, be subject to a stamp fee as well. The stamp fee will vary, depending on the type of activity for which the licence is issued. Higher stamp fees will be payable in respect of licences within the municipal areas.

2. Stamp Duty on Cheques

I propose to increase the stamp duty on a cheque from 10 cents to 25 cents. This proposal will yield an additional revenue of Rs. 3 million.

3. Licence Fees on Government Vehicles

At present there is no licence fee payable on vehicles owned by government departments. I propose that these vehicles should also be liable to licence fees. This would be in keeping with my proposal that government imports be subject to import duties.

4. Fees for Registration of Nursing Homes

Most of the nursing homes in the city as well as in provincial towns are doing well and there is no reason why they should not be called upon to contribute to government revenue. I, therefore, propose that the fee for first registration be increased from Rs. 100 to Rs. 10,000 and that the annual licence fee be increased from Rs. 50 to Rs. 2,000.

5. Other fees and charges

I propose that the fees charged under the following heads be doubled so as to bring these fees in line with the increased costs of providing these services:

- (i) Court fees;
- (ii) Audit fees;
- (iii) Fees of the Survey Department;
- (iv) Fees under the Weights and Measures Ordinance;
- (v) Fees under Merchant Shipping Act;
- (vi) Fees charged for Registration of Companies.

6. Revenue Licence Fees on Motor Vehicles

The licence fees as presently levied are based on the age and the tare of the vehicles. There are at present six categories based on the age of the vehicle and ten categories based on the tare. This complicated structure is being simplified by reducing the age categories from 6 to 2 and the tare categories from 10 to 5 for motor cars. In the case of vehicles other than motor cars there will be only 8 categories based on tare and none based on age.

The new scheme has been drawn up with the following objects in mind:

- a) to increase the total licence fees derived from motor vehicles;
- b) to keep licence fees on very small cars below 15 cwts. in weight low, irrespective of the date of registration, to encourage the use of light cars which are fuel efficient;
- c) to substantially increase the licence fees on cars where the tare exceeds 25 cwts. so as to discourage the use of heavy cars consuming large quantities of fuel;
- d) to reduce the advantage which diesel car owners now enjoy because diesel is sold at a much lower price than petrol.

The new licence, registration and transfer fees will bring in additional revenue of about Rs. 65 million. In anticipation of this additional revenue, a sum of Rs. 50 million has already been provided in the 1982 estimate as additional grant to the local bodies for maintenance of roads.

SUMMARY OF REVENUE PROPOSALS

	Rs. Million
Surcharge on income tax and wealth tax ..	200
Restriction of small company relief ..	2
Turnover tax on imports and increase in manufacturers' tax ..	1,290
Increase in turnover tax on banks, finance companies and pawnbrokers ..	50
Increase in turnover tax on hotels, approved restaurants, contractors, architects and - consultant ..	25
Increase in turnover tax on advertising receipts of newspapers and periodicals ..	10
Increase in excise duty and turnover tax on liquor ..	175
Increase in taxes on tobacco ..	255
Imposition of excise duty on beedies ..	70
Stamp fees on liquor licences ..	10
Increase in stamp duty on cheques ..	3
Revision of fees levied by government departments ..	15
Increase in licence, registration and transfer-fees on motor vehicles ..	65
	2,170
Less:	
Reduction of import duty on machinery and essential raw materials ..	200
	1,970
Mr. Speaker, with tax proposals, the final estimates of expenditure and revenue are as follows:	
(i) Recurrent Expenditure ..	- 21,114
Less: Provision for under-expenditure ..	+ 450
(ii) Advance Account Receipts ..	+ 100
(iii) Revenue ..	+ 19,319
(iv) Current Account Deficit ..	- 1,245
(v) Capital Expenditure ..	- 20,817
Less: Provisions for under-expenditure ..	+ 902
	- 19,915
Overall Deficit ..	21,160

Mr. Speaker, as I have indicated earlier, the resources available to finance this deficit are foreign financing of Rs. 14,190 million and Rs. 4,000 million of borrowings from the domestic non-bank sector. This leaves an unfinanced gap yet of Rs. 2,970 million. This is only 2 per cent of the projected Gross Domestic Product for 1982 and is a remarkable improvement over the last two years. It is necessary, however, to keep a strict control of expenditure during 1982 to keep within these limits."

In the discussion that ensued in the Second Reading stage of the Budget the Opposition spokesmen criticised both the proposals and omissions in the Budget as well as Government policy. We reproduce here, excerpts from representative speeches of three Opposition Members from Hansard.

DISCUSSION OF THE SECOND READING OF THE BUDGET

Mr. M. Sivasithamparam — MP for Nallur.

Sir, introducing the 1979 Budget, the Hon. Minister of Finance and Planning said that the dark clouds were moving away and he was seeing a glimmer of light in the distance. The Hon. Leader of the Opposition said last year that he observed on that occasion whether the glimmer that we saw was the glimmer of the dawn or the glimmer of the setting sun. I think today we are perfectly satisfied that we are in complete darkness as far as the economy is concerned.

Mr. Speaker, when he made this speech on the Floor of the House, some of us thought that his proposals in the Budget of this year were going to be a soaking of the rich. But what do we see? Undoubtedly, he has imposed some tax as a surcharge on income tax and a surcharge on wealth tax. But he went only half way. Why a surcharge, because we know that a surcharge is only for one year, unless he wants to repeat it in the following year? Why has he not straightaway imposed a higher tax on these people? Mr. Speaker, if you look at the amount of money that he hopes to make by these tax proposals, that is also significant. He hopes to make only Rs. 200 million on this surcharge on income tax and surcharge on wealth tax. From BTT — that would be the tax that would affect the average ordinary man in this country — he hopes to make Rs. 1,298 million, and on cigarettes he hopes to get more than what he hopes to get from surcharge on income tax and wealth tax.

Now he speaks of removing the tax holidays but gives them time till 1983. Many of the tax holidays, will expire by 1983. So what is the use of saying, "I am going to withdraw the tax holidays in 1983", when in fact they will cease by 1983?

Then he has not touched the Free Trade Zone, not even the Sri Lankan who has contributed for the factories in the Free Trade Zone. I can appreciate his not wanting to touch the foreigner, but why has he not touched the Sri Lanka man in the Free Trade Zone?

Whatever the figure, it is a far cry from the one lakh of jobs you promised in the Free Trade Zone.

You spoke of technology. The two things you wanted to achieve by the Free Trade Zone were employment and technology. There is not much technology in operating a sewing machine! The large majority of factories that have been set up in the Free Trade Zone are garment factories. What has happened is that every year the Hon. Minister of Trade has to fly to the United States or West Germany and plead

with them, "Please do not cut my quota." I quite appreciate the Hon. Minister's ability to have gone and persuaded those countries to keep the quotas on. But that is what he has to do; if he does not do that, then the forecast in the magazine "The South" would have come true, that many of the factories in the Free Trade Zone would have had to put up their shutters if the quotas were reduced. But you exempt them even from these taxes that you are imposing on the rest of the country.

One matter that I want to deal with straightaway is the practice, which is now becoming a habit, of leaving a certain gap in the Budget without it being financed. Last year you did it; this year you did it. This year you said that you have left Rs. 2,970 million unfinanced. Even in your foreign budget what do you say? Rs. 14,190 million or 66 per cent of the deficit, it is estimated, could be got from foreign sources. The Hon. Minister knows that there was a time, even during his own UNP Government of last time, when Ministers of Finance used to table, along with their budget proposals, a foreign exchange budget. The Hon. Wanninayake used to do it; the other Ministers used to do it. It was a foreign exchange budget which used to say how much we were going to get and how much we were going to spend. Now, how much money we are going to get from foreign sources has become a matter of guess! This is not a mere lapse on the part of the Hon. Minister of Finance to bridge the gap. I say, Sir, that you are taking away from the Parliament, control of the finances of this country. This is one occasion when we can say what we have got to say about the finances of this country. By doing this sort of thing you are taking away the one control that Members of Parliament have over the finances of this country.

The Hon. Minister of Finance said that the rate of inflation is 18 per cent according to the Central Bank. Now, in our experience as ordinary citizens certainly it is much more.

"What did he tell us? We shall have financial control; we shall have financial discipline. What happened? He raised the level of recurring expenditure by 8 per cent, the level of the capital expenditure by 9 per cent, and I think the supplementary estimates he brought here amounted to something like Rs. 1825 million.

I think the Plowden Committee of the UK has said this about the Budget. The Budget is seen not as a simple balancing of tax receipts as against the expenditure but as a sophisticated process in which fiscal instruments are used to implement the economy.

Let us first take indebtedness. The foreign debt is Rs. 24,575,321,492. The domestic debt, I think as at end of June

1981 — this is in answer to a question in Parliament given by the Hon. Minister of Finance himself — is Rs. 30,996,391,296 making a grand total of Rs. 55,572,112,788. This, Mr. Speaker, represents a 300 per cent increase over the 1976 figures.

Mr. Speaker, I saw a very inspiring article in the Economic Review of the People's Bank about public debt by a gentleman called Dr. Fernando who, I think, is the Chairman of the People's Bank today and who was in the Central Bank at one time. He says, "Well, what is there to worry? Do not compare a country's public debt with a man's private debt!" He must be really worried only about foreign debts but as far as the rest of it is concerned there is nothing much to worry! I do not know whether that was in time for the Budget, but anyway it is neither here nor there.

The Hon. Minister was certainly worried because he said so in 1977. If one may look at it in another way, the ratio of public debt to the gross national product was 72 per cent in 1979 and 84 per cent in 1980.

I think he once said that in Bangladesh, which, I think, Kissinger described as the "international bread basket". But, are we proud of this reputation? Are we proud that we are the best beggars in the world? Are we proud of the reputation that we are able to amass so much foreign resources?

Of course, the World Bank always keeps its creditor countries just below the nose level. It will not let you sink further, nor will it allow, you to come up. That has been what the World Bank has been doing to every creditor country, whether it be Jamaica, whether it be Indonesia, or whether it be Sri Lanka. Therefore, we went and borrowed and borrowed — and today we find ourselves in a situation where we are indebted to such a large amount. Far from standing on our own feet, we today depend on foreign markets, we depend on foreign investment, we depend on the inflow of foreign aid and loans, we depend on the coming tourists, we depend on the out-flow of migrant labour and the inflow of foreign earnings from that migrant labour. Far from standing on our feet, Mr. Speaker, succeeding generations are going to sink deeper and deeper into the quick sands of foreign debts.

When it comes to paying the other monies, particularly the monies he had borrowed from commercial banks and state credit institutions, he will not say the same thing.

The Hon. Minister has said that he will finance the deficit by raising Rs. 4,000 million on borrowings from the domestic non-banking sector, which means means you will issue Treasury Bills, which means you will print money. That is what the Hon. Minister is going to do for 4,000 million rupees, to balance the deficit as far as the domestic debt is concerned.

I think you have made a mistake. Rs. 4,000 million is to be found through local loans, not from the non-banking sector, not by printing Treasury Bills.

Mr. Speaker, our inflation rate is high. People just cannot live on the incomes that they get. Are we going to put further burdens on them? That is all that I ask.

Last year our tea, rubber and coconut fetched better prices but because there was a drop in production we were not able to get the benefit of the increased prices in the world market.

Sir, let us consider oil prices. True, we have no control over oil prices; and oil prices have been going up over the last two, three, four years. But have we done everything possible to conserve our oil? See our roads. It took me 20 minutes to come from Hulstsdorp Junction to Parliament this morning because of all the mini buses.

What is this 8.2 per cent growth in 1978 and 5.8 per cent or 5.5 per cent in subsequent years. In what sectors has there been that growth? The growth has been in construction, trade, transport and utilities, while in industry and agriculture the growth has been minimal. In even agriculture the growth has been largely due to paddy cultivation and not for any other, and even there the growth has been minimal. The greater portion of the growth came from petroleum products, which means that we import the crude oil, refine it and sell it back. But in other industrial products we have failed.

Consider construction. Are you going to construct dams and houses and so on for all time? Consider your transport. Everybody in this House knows that the minibuses that have come here are junk which have been reconditioned and sent here. How long are they going to last on our roads? Once they break down what do you hope to do?

These are not the sectors that are going to sustain your growth. What is the position in regard to industries. Year in and year out I have on the floor of this House said that our local industries are going to the wall.

So, the position is that our local industries have been very adversely affected by the so-called liberalization, policies of the Government.

His Excellency the President said that employment is the first priority, the second priority and the third priority. And therefore it is said, "All these things are true, they are happening, but we have given employment."

The Central Bank says that in 1978 it was 145,000; in 1979 it was 115,000; and in 1980 it was 18,305; making a total of 278,305. They also say that in the private sector something like 3,030 have been employed.

I think all of us are agreed that today the cost of living is so high that even a family of four cannot live on anything less than Rs. 2,000 a month. The Hon. Minister, when he imposed the business turnover tax, imposed a two per

cent tax on rice also. "What does it matter, only ten cents more for a pound or a measure", he said. Ten cents is a big sum for a family which has got four or five children. When he buys two or three measures it is a big sum of money to him.

Mr. Speaker, I am one of those who welcome the measure of the Hon. Minister in increasing salaries and what is more important, the payment of Rs. 2 for every point that goes up in the Cost of Living Index. That is something that the trade unions and others have been asking for. Of course, whether Rs. 2 is enough or not is a matter that has to be argued. That is initially a good step that has been taken. But, while you have looked after the government servants, what about the rest of the public sector, what about the rest of the private sector, what about the co-operative employees, what about local government employees?

Then I come to the one sector that has been neglected at all times, the plantation sector. They did not get the Rs. 70 increase. There is no possibility that they will get the money now. They are the poorest of the poor as far as the working class is concerned.

Now Mr. Speaker, I want to refer to the question of food stamps. You have not increased the limit of the food stamps from Rs. 300 in 1979. If Rs. 300 was the poverty line in 1979, it is certainly much higher today. You will admit that you have not changed the nominal value of the food stamps. What you gave in 1979 is what you are giving today also, while you yourself know that you can buy very little with the nominal value of the food stamps that you are giving.

In this connection I also want to say a word about the imposition of the Business Turnover Tax on a number of items, particularly, items of food, drugs and books. This is bound to send up the cost of living still further and, as I said, what you give with one hand you are taking away with the other. What you give as an increase in salary to these people, which itself is not satisfactory, you are taking away by another means.

Therefore, I do ask that this whole question be reviewed once again. It is my view—maybe I am wrong that the only sensible thing to do is to ensure to every man a fixed quantity of essentials to be given at a fixed price.

In 1978 or 1979 the government servants struck asking for an increase in pay. You concede now that increase is necessary. Surely, why do you not take them back? I know a large number of them have been taken back, but why do you not take the rest of them also? I think the Hon. Minister of Finance has been one who has taken practically everybody back. Therefore I do not want to say anything more on that. But certainly, why do you not take them all back? What wrong have they done? You yourself agree that this increase is essential. Well, if they did ask for it in a way in which it was then known

to be the correct way, the done way, why are you not taking them all back? I do appeal to the Government in this matter that they should do a little rethinking and re-employ all those who have struck work.

I am reading from page 7 of the Annual Report of the Central Bank (1979) and they say that in 1953 the lowest 10 per cent of the population got 1.5 per cent of the income. In 1963 they got 1.2 per cent. In 1973 they got 1.8 per cent and once again in 1978 it dropped to 1.5 per cent. Of course the Hon. Minister of Trade made the point that between 1973 and 1978 two governments have been in power. I am not saying, no. You came into power only in 1977. But, still, in the survey that has been done, certainly this 10 per cent, the lowest 10 per cent, has dropped to 1.5 per cent from 1.8 per cent, and the highest 10 per cent has gone up from 30 per cent to 39 per cent. That has been an increase at the expense of the poorest for the highest groups to get a greater share of the income. And this is what the Report says at page 8.

That is why I said that it is certainly unfortunate that the Central Bank has not continued its exercise in 1980 and told us exactly how this distribution of income had taken place in 1980.

Sir, the type of activity that is going on — I am glad the Hon. Minister is taking a note of it — is the creation of a contractors' paradise. That is the economic activity that is going on. It is a contractors' paradise. They have only to have some money for them to double it and treble it in one or two month's time. And who benefits from this contractors' paradise — importers, sub-contractors. Those are the people who are benefiting from this paradise of contractors. I am glad the Hon. Minister is taking steps to tax them, but what is happening?

Mr. Anura Bardaranaika — 2nd MP
Nuwara Eliya-Maskelliya

Mr. Speaker, the Minister of Finance, at the commencement of his Budget speech, tried to pass off the economic problems of this country rather easily as caused by factors which cannot be controlled by him or by his Government.

I am glad in fact — I must compliment my Hon. Friend, it is one of the few commitments I shall pay him in my speech for having realised, even though very late in the day, that expenditure has to be curtailed and cut. He is making attempts to do so. I know that, inspite of many ministerial protestations, the Hon. Minister of Finance is seriously trying to curtail ministerial expenditure.

Now Sir what is the cause of this problem? Why are we in this economic mess? It is because of the unprecedented foreign aid that the government has borrowed in the last 1½ years. Sir, when you take loans, you must be able to pay them back, which is the fundamental principle of the man

who gives the loan and the man who takes the loan. And I am totally convinced that by the economic policies that you are pursuing under the J. R. Jayewardene administration you will not be able to pay back these debts, and in fact the future governments, whatever those governments may be, are going to find this country totally ungovernable.

I would like to remind my friend the Minister of Finance of this. I am sure he has read this, a remark that his namesake, Mr. Ronald Reagan has made at the Cancun Summit. "Unless a nation puts its own finances and economic house in order no amount of aid will produce progress".

Now this is the statement made by the grandfather of capitalism. You are only the grandson of the capitalist system. The 1980 Budget deficit went up from Rs. 8,791 million to Rs. 16,724 million it is exactly a hundred per cent increase. How do you meet this Budget deficit? How do you bridge it? You borrowed Rs. 6,700 million by foreign aid, and from non-banking sources Rs. 2,700 million, and from other banks Rs. 7,000 million. In other words, the 1980 Budget deficit was completely covered entirely by borrowing.

Now what happened in 1981? In 1981, the original Budget deficit was Rs. 11,000 million, but the revised estimate went up to Rs. 14,000 million in spite of all your cuts, and your curtailment ministerial expenditure. Fifty per cent of this is going to be met by foreign aid and borrowing. Now let us see the 1982 Budget. The overall deficit is Rs. 21,000 million. Nearly two-thirds of the present deficit is going to be met by foreign aid. I will now deal with the Treasury Bills. You propose to raise Rs. 4,000 million through Treasury Bills.

Through Treasury Bills you are printing money. I will give you the figures and show you how much you have printed during this short time. In one year, that is, only from July 1981, you have increased the Treasury Bills from Rs. 4,000 million to Rs. 11,250 million. That is not inclusive of the Rs. 4,000 million or Rs. 5,000 million you are going to pass shortly. That is an increase of Rs. 7,250 million just in a matter of 12 months. This type of financing leads to galloping inflation, and galloping inflation leads to ever rising cost of living. In this Budget ...it is not even a complete budget it is a half finished budget — there is an unfinanced gap of Rs. 2,970 million. You have not told us how you are going to finance this gap. (with these Treasury Bills).

Quite right. This is the only course open to a person who is determined to perform hara-kiri in public. Sir, the Japanese, whom you emulate so much, find the most noble way of committing suicide. They dress in white, sharpen an age-old knife, stick it in their belly and they turn it around until the bowels jump out. This is exactly what the Ministry of Finance is doing with the economy of

this country. This vicious circle of ever getting into debt; trying to cover those debts by borrowing more and more, is a vicious circle, and I call it a never ending merry-go-round of economic chaos, a thing that goes round and round.

Let us look at the foreign debt and domestic debt. When we talk of the public debt, there are two types of debt, the external or the foreign debt, and the domestic debt. The foreign debt of the country has increased from Rs. 4,411.7 million at the end of June 1977 to Rs. 22,391.6 million as at the end of March, 1981. The net domestic debt has increased during the corresponding period from Rs. 15,000 million to Rs. 50,000 million, a threefold increase.

Now Sir, I do not think I should speak on two other matters which I noted down, namely, balance of payments and production, but I think it is important, when you speak on a Budget to refer to them. The balance of payments at the end of 1977 when we left office had a surplus of Rs. 508.6 million. Today, in 1982, we have a trade deficit of nearly Rs. 16,000 million. From a surplus of Rs. 508.6 million we now have a deficit of Rs. 16,000 million. This is the extent of the balance of payments deficit which we are facing now.

I have brought for the information of this house the names of some imported items from a certain supermarket in Colombo. Jasmine Tea Rs. 80. We are one of the best tea producers in the world. We produce some of the finest tea, but we import Jasmine Tea at Rs. 80? When the people of this country do not have enough money to buy basic essentials you are flooding supermarkets with these items to cater to a few, to a handful of people. What is the percentage of people in Sri Lanka who can buy these things? I am glad the Ministry of Finance has realized it and is at least making an attempt to curtail the unnecessary import of these luxury items.

Let us have a brief glance at real wages. While we concede that the wages of agricultural workers and industrial workers have substantially increased — we are not denying that; we shall admit that — where the wages of technical and clerical employees are concerned it has decreased from 103.0 in 1977 to 88.0 by July this year. The index of real wages of all Central Government employees has decreased from 118.3 to 108.4. Look at the wages of teachers. They have decreased from 90.9 in 1977 to 74.1 a decrease of nearly 15 per cent.

Mr. Sarath Muttetuwegama — MP
for Kalawana

The World Bank and the International Monetary Fund, which have been the guide, philosopher and friend of this Government, have now come sharply under the control of the American Government, and the American Government has said that they are going to try to use those institutions as instruments of their policy. It is in that context that we have to look at

this Budget and to see what impact it offers us.

The UNP came into power in 1977 and announced certain policy decisions. Our position is that these policy decisions which the UNP announced are only partially their own; the rest of the policy was dictated to them, dictated by the World Bank and the IMF. What has been the result of the open, so-called liberalized free trade policy, the dismantling of controls, the devaluation — all these conjointly? The Government told this House and the people of this country, "This is the road to development." I think the Hon. Member for Kaduwela (Mr. M. D. H. Jayawardena) has already quoted the Hon. Minister. The Minister has on one occasion said that this is the journey to the promised land. His Excellency the President has said that this is the strategy for development. Yesterday, today, every day he says that. Some people have said that the model is Singapore. The Minister of Finance, of course, very correctly showed that the development of Singapore took place in a completely different context to what obtains in Sri Lanka today in relation to size, in relation to the period, in relation to the boom and recession in the capitalist world. But for some people Singapore was the model. In this context we have to look Sir, to see where the policy of the UNP has led us, whether the price the people of this country have paid has resulted in benefit to the people, in development of the country and, in any event, at least a glimmer of hope for the future? What is the position?

The devaluation was of a very large extent. In 1977 the devaluation was 86 per cent and after having devalued by 86 per cent we have put the rupee on the float. An 86 per cent devaluation occurred in 1977, and since then the rupee has been floating. We are told — I think it has been said elsewhere; I think Esmond Wickremasinghe's letters are now coming out to the public that the IMF has asked that a further devaluation in the context of the float be undertaken to make the Dollar equivalent to 24 Sri Lanka rupees. We do not know whether that is so or not, but the floating rupee has undergone a further devaluation since 1977. There is a gentleman — I think he is a Dutchman who flies in occasionally to Sri Lanka called Schelling — who advises the Central Bank or who really controls the floating currency rate. He is the man who was responsible for overseeing the operation when the FEEC Scheme was cut off. This Mr. Schelling operates the float. Some economists call this system of floating the "dirty float".

What has happened as a result of the new float is that since 1977 up to April 1981 the rupee has been devalued against the Dollar by 12.8 per cent, against the Pound Sterling by 26.3 per cent, against the Japanese Yen by 24 per cent, against the Deutsch Mark by 14.9 per cent and against SDR million by 14 per cent. That is up to April 1981 and there has been a further float, a further devaluation thereafter.

We are talking of growth. The Hon. Minister in the course of his Budget speech said that we have had a very high average rate of growth over the last four years. If we examine the growth sectorally, we find that the growth is not something that we can really be proud of.

It is well known that the growth in 1978 was 8.2 per cent which is really an astounding figure, by figures. In 1979 it was 6.2 per cent, and in 1980 it was 5.5 per cent. But where has the growth taken place?

Sectorally, where has the growth occurred? In 1970, in the gross figures, the growth of agriculture was 28.8 per cent in exports. In 1980 it has come down to 24.6 per cent. In manufacture it has come down. In 1970 it was 16.9 per cent, and in 1980 it was 13.8 per cent. So, we cannot talk of growth in the two principal sectors.

The manufactured exports grew really in two areas — in garments and petroleum. Actually, the World Bank Report says that in non-garment exports there has been a decline of 9 per cent in exports. In the two areas where there was a burgeoning of exports, manufacturing exports, in textiles there was a growth from SDR million 7 in 1976 to SDR million 84 in 1980, and in petroleum from SDR million 81 in 1976 to SDR million 139 in 1980. But what is the point? In both those fields the import content, that is the raw materials is all imported. In garments 93 per cent of the raw materials are imported. The Central Bank's "Review of the Economy" says that in the export of garments 93 per cent of the raw materials are imported, while in petroleum 96 per cent of the raw materials are imported. So what we are really doing is, we are importing certain things and exporting them and then putting them into our figures. Even then the manufactured exports have come down, but when you put it into our figures, it comes into growth, into exports and into revenue and hides a number of things.

But what has happened with this liberalized economy? What other consequences has it brought to our people? According to the Colombo Consumer Price Index — a very antiquated price index, very badly calculated now, and probably not reflective of the increases in prices sufficiently there has been a very curious situation. In 1976 according to the Colombo Consumers' Price Index, there was a one per cent increase in the cost of living. I quote from page 46 of the Annual Report of the Central Bank for the year 1980:

"The annual average of the Colombo Consumers' Price Index registered an increase of 26 per cent in 1980 compared with one per cent increase each in 1976 and 1977, a 12 per cent increase in 1978 and a 11 per cent increase in 1979."

So, the real wages of Government employees declined by 11.6 per cent in 1980. Prices rose by 26 per cent while real wages were declining.

The World Bank in its May 1981 Report said that the inflation was 44

per cent. Truly, it is a frightening figure for a country like ours. How did it happen? Is it because of the international factor? That was a factor, but everybody is conceding that it was largely due to domestic spending.

There has been a severe cut in the living standards of the people. Of course there has been an announced Government policy that there will be no subsidies. There are no subsidies for the people who buy things that are imported. There have been subsidies for the rich because they have got subsidies by way of tax exemptions and tax reductions.

Sir, he has taxed the rich by a once and for all surcharge on income tax and wealth tax. How much is he getting, Sir? Rs. 20 million. Beedi smokers contribute Rs. 70 million; cigarette smokers Rs. 225 million; arrack drinkers Rs. 200 million and the BTT from all of us is Rs. 1,290 million. The rich only Rs. 200 million and each of them will have to drink six bottles less of whisky and take three dinners less at the Oberoi and then they can pay their tax. He cannot tax them. He may be having some conception, but he cannot do it, because this Government is pulling in different directions. Somebody has said that Ted Kennedy has described the Reagan Government as a Government of the rich, for the rich, by the rich. If he has seen our Government he would have not been talking of Reagan's Government.

The Finance Minister, in the course of his Budget Speech and on several occasions earlier, talked of the necessity of cutting our coat according to the cloth.

Sir, earlier I referred to income tax. Income tax as a percentage of the total government expenditure is declining both personnel and corporate tax. The total income tax as a percentage of the total government expenditure in 1977 had formed 11 per cent; in 1978 it formed 6 per cent; in 1979 it formed again 6 per cent. In 1980 and 1981 it went up marginally to 7 per cent. The result is that in this year's Budget income tax, personal and corporate, has declined in income tax receipts, but the taxation is levied by indirect taxes, the biggest being the Rs. 1,300 million on BTT. Everybody knows that the BTT is going to be borne by the consumers.

All I am trying to say is that there is no proportion in this. After all, the Government brought down the tax slabs when they came to power in 1977. When Rs. 200 million is coming from surcharge, by adding up the increases from arrack, cigarettes and beedi, one sees that it is the poorest class of people who is actually being hit by this taxation in addition to the indirect tax in the form of BTT.

Sir, from where is the money for the unfinanced gap going to come? The economists and even Friedman have said that if you have unfinanced gaps in the country's Budget estimates, that means there is going to be another form of hitting the people because it has to come from Treasury Bills. There is no other way. The Minister has opti-

mistically even made provision for under-expenditure. There will be some under-expenditure in some Ministries, but those Ministers who have been described by the World Bank as those who grab the largest share of the resources will come here with supplementary estimates next year again, and then the Hon. Minister of Finance will not be able to stop it. Even the Hon. Minister will not be able to stop the Treasury Bills. So the unfinanced gap will have to be borne by the people.

Another thing that the Minister made very much of was the fact that our public debt service burden is very small. He said it is something like 7 per cent, and it is nothing. I am challenging the Hon. Minister on those figures, because there are several ways of computing it. If you take it on the basis of a country's capacity to pay out of its own export earnings, then the figure will be very much higher. In any event, I want to bring to your notice that because of the shifting pattern in the grants and loans and the money that we are borrowing from the commercial banks, the picture of the debt service burden will change for the worse. So, in regard to our heavy foreign financing in the last few years, in 1977 grants and loans comprised 21 per cent and commercial bank loans amounted to only 5 per cent. In 1978 it shifted slightly, grants and loans being 24 per cent and the commercial bank loans amounting to 6 per cent. In 1979 grants and loans went down to 19 per cent, and the commercial bank loans also went down to 3 per cent. In 1980 grants and loans came down to 15 per cent, but commercial bank loans went up to 16 per cent. When we start paying back non-concessional financing what we have borrowed from the commercial banks the picture of the debt service pattern will start shifting adversely as far as the people of this country are concerned.

I want to ask the Hon. Minister whether it is not correct that Mr. Hopper, his friend from the World Bank, when they met in Tokyo, did not actually allege that 35 per cent of the money that comes to this country as grants, loans, etc., is going by way of commissions and kick backs. These are loans, grants or commercial bank borrowings which we have to pay in one form or the other. Whether the gestation period is long or short, the people of this country have to pay this.

The point is this, that we are, as I said, getting into a dependent syndrome. We are dependent on aid. Now, the 14 billion rupees out of the 21 billion rupees is being financed by loans, grants, so on and so forth. They are not being paid to us for nothing. They are not being paid because the donors and the givers think that Sri Lanka is a beautiful country or because we have 50 years of adult franchise as somebody else says. They are being paid for a particular purpose, and the purpose is becoming increasingly more revealed.

THE FINANCE MINISTER REPLIES

Winding up the debate on the Budget, for the Government, the Minister of Finance warned that the country's financial problems would continue for another three to four years, because expenditure on the government's development projects would peak in the next few years.

He said that no regime had ever undertaken such massive development projects as this government had. Understandably, finance had to be found. Without foreign assistance such a development oriented budget could never have been presented. Sri Lanka was not the only country which resorted to foreign aid to meet its financial needs. But the important fact to remember was that Sri Lanka had obtained aid under the best possible terms. Its debt servicing ratio is one of the lowest in the world. This was possible, despite a massive infusion of foreign aid.

To quote excerpts from the Minister's speech.

Debt Service Burden

"The debt service ratio of Sri Lanka is still one of the lowest in the world. I will read you the statistics from the World Development Report 1981, published in August 1981. That is the latest World Bank Report which gives the debt service burden of several countries. Sri Lanka, 6.5 percent, one of the lowest. This is as at January 1980, because they have given the statistics only as at January 1980. That is, the published statistics of the World Bank. Bangladesh 8.4 higher than us; Burma 22-three times higher than us; India 9.5 higher than us; Tanzania 7.4; Zaire 9.1; Uganda 7.4; Indonesia 13.4; Sudan 33; Senegal 13.7; Egypt 15.8; Zambia 19.7; Philippines 12.6; Beirut 22.3. I am only taking a representative group of the Third World countries from Asia, Africa and Latin America. Columbia 12.5; Jamaica 15.9; Turkey 12.9; Mexico, one of the biggest oil producers today, 64.1; Chile 26.2; Brazil 34.6; Yugoslavia 4.2; lower than us. The only country still lower than us is 4.2. Venezuela, another oil producer, 9.4; Singapore, only a city state as I often say in this House, is 1.3 less than us. I admit: a small city state where wants are very limited. Israel 10.3.

"Still our debt service position is one of the lowest in the world. If we can do these things without debts, without borrowing from anybody, it is all well and good, and I will be the happiest man in the world to say that we have no debts to the world. But if you are doing this type of programme, we have to get loans, we have to get them on the best terms possible. And that is why,

despite massive foreign aid, we have still a public debt service ratio which is one of the lowest in the world.

"I have ensured that 35 per cent of all our borrowings are grants; outright grants, non-repayable. There will be no burden on future generations. They do not have to pay one red cent. As to the balance, they are all long term loans—30 years, 40 years and 50 years. Most of them with a ten-year grace period. Most of them have no interest. We have to repay only the capital. For example, loans from Saudi Arabia, a number of loans — no repayment of interest. The only repayment is the capital. Others at half per cent interest; one per cent interest; two per cent interest, and three per cent interest. 85 per cent of our borrowings have been on that basis. Few export credits. As you all know, export credits are on a regulated basis called the Export Credit Consensus. There is a world agreement on this consensus.

"Then, a few commercial borrowings from banks. There too, we have obtained the best terms possible. I will give you the terms of the very last commercial borrowings we did. August 14, 1981. US\$ 75 million loan, Euro-dollar loan. Rate of interest 5/8th per cent over LIBOR. That is, the London Inter Bank offered rate.

"It is better to avoid commercial borrowings. I was trying my best as Minister of Finance to avoid commercial borrowings, and I did it up to say, one and a half years ago. But it is impossible for a poor country like Sri Lanka to do all these things at one and the same time without any commercial borrowings. There is no country that has not borrowed commercially at some time or the other. Our percentage of commercial borrowings is still quite low, still quite small compared to many countries. On some countries the percentage of commercial borrowings is as high as 75 per cent, 80 per cent and 90 per cent. For example, Brazil's commercial borrowings are about 90 per cent. Zaire's about 80 per cent. Our commercial borrowings are still less than 15 per cent of our total foreign financing.

IMF and World Bank

"I told this Government, that we should go half and half if possible; borrowing half from the IMF and the World Bank and half from the private capital market, though at a higher rate of interest — at that stage in 1977, the private capital market rate of interest was very low—so that we had a proper balance. Some countries go for a balance, so that they are not tied too

much to the World Bank and the IMF. In fact, it is best if we can do without them at all. But we cannot do without their aid, and we decided to do this massive programme and to liberalize the economy. We had no option then but to come to some arrangement of a substantial nature with both the IMF and the World Bank. You could not liberalize the economy without an arrangement with the IMF and the World Bank. We would have had the same 7 years of shortages and queues, as you had earlier, if we did not come to some arrangement with the World Bank and the IMF.

"We would not have been able to set aside so much money for the Hon. Prime Minister for his housing programme if we had not gone to the IMF and the World Bank and got money from them for other purposes. Because we got money from the IMF and the World Bank for other purposes, we were able to set apart a fair proportion of local resources for the massive housing programme of the Hon. Prime Minister. No new industries would have been possible. No aid for fisheries development would have been possible. There would have been no money for agriculture. There would have been complete stagnation. It would have been just like the period 1970-1977 if we had not gone to the World Bank and the IMF. So I think when you tell us that we are wrong to have gone to the World Bank and the IMF your criticism is not justified. I would like the Members of the Opposition to kindly see both sides of the picture. I still say that if we can do without the World Bank and the IMF I would be the happiest man. But we simply cannot do without them. We have no option in the matter.

Subsidies

"Some members of Parliament of the Opposition raised the question of subsidies and the social justice. We still give many subsidies. The Government is strongly committed to social welfare and social justice and improvement in the physical quality of life of our people. These are our treasures, our country's crowning glories—free education, free health, free school books. We must safeguard them. It is the policy of the Government to preserve free education, free health, free school books, subsidized fertilizer and many other things. I wish I can give more. I wish certainly I can give more in the form of subsidies, but with such a huge development programme, with Mahaveli which swallows up most of our resources, we have to reduce some of these subsidies.

Treasury Bills

"There was a lot of talk about Treasury Bills. Let me at the outset quite plainly state that I hate Treasury Bill financing as a matter of policy. I have been against it. And if there was any other way I would never resort to it, and no government will. No government will resort to Treasury Bill financing if there is any other way. But our massive expenditure, particularly on Mahaveli forced us — you remember that flood of supplementary estimates, about Rs. 7,000 million supplementary estimates that came in 1980—to resort to Treasury Bill financing. I was nearly over-whelmed by that flood of supplementary estimates. I nearly got drowned, as you know, in that flood of supplementary estimates particularly for the Mahaveli Ministry. But we had to finance it. We could not abandon Mahaveli. There was no other way. So very reluctantly the Government has had recourse to Treasury Bill financing. I must only say this. The position today, though not satisfactory — I would hate to resort to Treasury Bills at all—is certainly much better than it was in 1980.

"I agree with the Opposition that we should restrict Treasury Bill financing as much as possible. It could ruin us, it is inflationary and if we can avoid it, we should avoid it to the best of our ability. That is why I always exhort my Ministerial Colleagues not to send supplementary estimates as far as possible.

"There was also criticism about the way that the Rs. 40,000 million, which is a projected expenditure for next year, has been allocated. There was some criticism that sufficient money is not going into for example, health, education, social services. I agree; I wish I had more money to give health, social services and education. But I had to make do with the money that I had and a lot of money has to go to our lead projects. Mahaveli alone takes up Rs. 7,400 million. That is almost twice Dr. N. M. Perera's budget and almost the same size as the last budget of Felix R. Dias Bandaranaike. Rs. 7,400 million for Mahaveli alone! We are spending almost the entire size of the SLFP's budget, their last Budget, for Mahaveli alone. Next year, naturally there has to be some reduction in the allocation of some other ministries. I am sorry about it because education in particular, health, social services, cultural affairs, the archaeological department — all of them need money. I wish I can give money, but the only way I can give money is either reducing Mahaveli or by printing treasury bills, both of which I am not prepared to do...."