

Budget Speech 2020

Honourable Speaker, I am very glad to be able to present the second reading of the Appropriation Act for 2020.

Although, this is the 11th time I am presenting an Appropriation Act in Parliament, this Appropriation Act is different from those presented so far. That is because this Appropriation Act includes 4 Votes on Accounts and as such this is a report of our Government's public financial management in line with those Votes on Accounts.

Honourable Speaker, at the Presidential Elections held on 16 November 2019, His Excellency Gotabaya Rajapaksa secured victory with 69 lakhs of people's votes, with an overwhelming majority of 52.25 percent. By that time, the then government had not presented an Appropriation Act for 2020. A Vote on Account had been approved expecting to present an Appropriation Act after the elections. With the resignation of the then government subsequent to the Presidential election, we, with the expectation of Parliamentary elections, formed a minority government and managed the budget in line with the approved Vote on Account.

As such with the Parliament being dissolved on the 2 March 2020 and the declaration of the General elections, HE the President approved a Vote on Account in terms of the Section 150 of the Constitution for the period March-May.

With elections being postponed to August by the Election Commission due to the impact of the Corona pandemic, HE the President approved another Vote on Account for the period June to August.

At the Parliamentary elections held in August 2020, having obtained 59.09 percent of the votes, we were able to form a strong majority government with 149 Members of Parliament, and you were chosen as the Speaker of this House.

Since there wasn't adequate time to present an Appropriation Bill for 2020 during the period of the approved Vote on Account, this House approved the Vote on Account presented by me as the Finance Minister in August for the 4 month period from September 2020. As such public finance management has been executed under 4 Votes on Accounts.

Honourable Speaker, a Vote on Account allows only the provision of public services and to provide allocations for already approved expenditures. It limits the space for a government to address the aspirations of the people immediately, especially for a government which was brought to power by an overwhelming majority desiring change. As such I wish to inform this House that the first year of the government of the Sri Lanka Podujana Peramuna, elected under the leadership of HE the President Gotabaya Rajapaksa, was an immensely challenging year that no other elected government had faced ever before.

Honourable Speaker, in the recently published World Economic Outlook - 20 October 2020, by the International Monetary Fund (IMF), it is forecasted that almost all the countries in the world are under a massive contraction due to the Corona pandemic. In this backdrop, almost all the major economies in the world have recorded negative growth rates. India, the largest economy in our region, is expected to record a 10.3 percent contraction of their economy. According to the IMF, China, which has been recording high growth rates as the second strongest economy in the world, is expected to record a growth rate of only 1.9 percent. United States of America, the strongest economy in the world, has recorded a 4.3 percent contraction while Europe, including some of its strongest countries, has recorded a contraction of 8.3 percent. It is pointed out that Sri Lanka is also expected to record a negative growth of 4.3 percent.

Apart from the economic disruptions in Europe, America and South Asian countries, large number of those infected by the Corona virus and resultant deaths show, not only

the dangerous nature of the pandemic but also the inadequacy of the capacity of the health and state services. It also exposes the limitations of market forces in meeting the health and social needs of countries.

What is unique about our country and our government is that we recognize free health services and social security as fundamental policy tenets. Unlike the government of 2015-2019 which has now been ushered into the opposition, by giving our government a huge majority by the people of this country at the 2020 general election, has recognized the limitations of market forces within the government policy framework of "Vista's of Prosperity" and conducts itself with full commitment towards fulfilling the broad role of the public sector. In spite of the increase in the number of deaths due to the effects of the unexpected second wave of COVID 19, we have been able to maintain a relatively low death rate at around 0.3 percent and leads in the prevention and quarantine process in comparison with many other advanced countries.

We should not forget that the main reason for that is the free health system and the health service that operates covering all provinces in the country. Our Health services were further strengthened by the commendable discharge of responsibilities by the Public sector services, the Security Forces and Police, which I believe warrants the acknowledgement of this House of the national importance of these services. This Parliament, which has full authority over public finances, should allocate provisions to those services not only because of their national importance but because this house is agrees with one voice, that the maintenance of free health services should be strengthened.

Honourable Speaker, a monumental effort has been made towards the management of the Corona Pandemic even within the limitations arising from the Votes on Accounts coupled with the weak budget and economy which we inherited. Nevertheless, the government has already spent around Rs. 70,000 million for the identification of

patients, quarantining activities, random testing and related welfare activities. Hospital capacity for disease prevention, which was limited to Colombo, has now been increased to 17 hospitals in less than a year covering almost all parts of the country. Number of special care beds for Covid patients have been increased to around 600. Daily PCR testing capacity for the diagnosis of the disease has been increased to an average of 7,500-10,000 tests per day with each test costing around Rs. 6,000/-, with the daily expenditure exceeding almost Rs.50 million. Government also spends a sizable amount for the food and welfare of those on 14-day the quarantine. In the meantime, an allowance of Rs.5,000/- is granted to low income families that are adversely affected by the COVID pandemic. Apart from that, the Government is also bearing expenditures related to the payment of the allowances of public servants who are engaged in those services and other related expenditure.

Similarly, this situation has adversely affected the exports of our country, tourism and foreign employment sectors. The pressures exerted on the foreign currency generating employment and livelihoods, private enterprises and government revenue and also the religious and social lives of the people is immense.

Honourable Speaker, the economy and the financial position passed down to us is pathetic. If I may begin with the income-expenditure gap, the budget deficit which my government brought down to 5.7 percent of Gross Domestic Product (GDP) in 2014, has increased to over 9.6 percent of the GDP by 2019. In fact this is more than the budget deficit recorded of 7 percent when I assumed office in 2005. When I presented the budget in 2014 for the year 2015, the targeted direction was to bring the budget deficit to 4 percent by 2020 while making the country free of poverty and become a high middle income country.

A main feature of bridging the budget deficit in the recent years is the non-settlement of dues to suppliers and beneficiaries from whom the government had procured goods

and services. Such outstanding unpaid bills amounted to Rs.243 billion, while the foreign debt financed expenditure amounted to Rs.212 billion remained unaccounted due to the approved borrowing limit being exceeded, resulted in the reported budget deficit for 2019, not reflecting the actual fiscal position. The unreported government expenditure included an outstanding amount of Rs.23.9 billion for fertilizer, Rs. 31.4 billion for the purchase of medicine, Rs.119 billion for the construction industry, Rs.45.8 billion for elders' interest subsidy and Rs. 22.1 for services made available to Ministries and Departments. All of this I see as a dereliction of responsibility in fiscal management. Due to non-settlement of bills, contractors, fertilizer and medical suppliers and elders who depend on interest income faced numerous difficulties and it contributed to creating a regressive economy.

Honourable Speaker, the public debt that stood at 70 percent of GDP in 2014, had been raised to 85 percent, this is in spite of the Hambantota Port being sold on a long term lease which was justified by the then Governor of the Central Bank to be required to support debt management. Although the annual debt service for the Harbour amounted to only around USD 90 million, the loan obtained for the construction of the port had not been settled even after receiving USD 1,200 million from the sale of the Port. The Treasury is still servicing the loan annually to the China Exim Bank. It appears that the funds so raised from the sale of the Port had been utilized to finance other budgetary activities.

From 2020 onwards annually, foreign debt servicing amounts to approximately USD 4,200 million. Members of the Opposition and their advisors both local and foreign had forecasted that we would become a country in default as we were caught in a debt trap. Contrary to the forecasted dark picture, I am happy to report to this House that we have settled all debt obligations including the foreign currency debt dues for the year 2020. We were able to maintain this unblemished record of ours, only because we took

immediate action to reduce unwanted foreign borrowings and made substantial effort to manage imports at an acceptable level, as we had a clear understanding that the debt phobia is being propagated simply as a strategy to justify the sale of assets of the country and the neo liberal policies of the last government.

Within the past 5 years, not a single investment have been made to improve the production capacity by investing in a power generation project, construction of tanks and reservoirs, a water supply project, a railway line, an expressway, a bridge, a urban housing project, port city or an economic zone or a fishery harbour. No village could be found which was actually empowered through the Gamperaliya, which was designed to empower villages. Instead of facilitating exports of locally produced tea, coconut, rubber, cinnamon and pepper, the import and re-export of these produce has had an adverse impact on the plantation sector as well.

Instead of graduating into an upper middle income country, per capita gross income was stagnating at USD 4,000. The country went from recording an average annual growth of 6 percent per annum to a country that recorded a steady decline of growth to 2.3 percent in 2019. It was the lowest growth rate recorded in the South Asian region. The low growth rates recorded in the last 5 years, being the lowest in the region cannot be justified at all. It is not a secret that the neo liberal economic policies which supported trading of imports, resulted in the crippling of the rural economy, on which 40 percent of the total population is directly or indirectly reliant.

The implementation of import oriented economic policies instead of facilitating exports has resulted in getting stuck in a trade deficit of around USD 8 billion. It has to be acknowledged that this pathetic situation is due the failed economic and fiscal management programmes implemented in the last 5 years by the previous regime, as well as the attempt to create an import-based economy instead of a true production economy.

Honourable Speaker, by the year 2014 we had increased the foreign remittances to USD 7,000 million from the USD 4,000 million in 2010. However, foreign remittances have decreased to USD 6,700 million by 2019. The Easter Sunday attacks made possible in the background of weakened national security and intelligence services, resulted in the Tourism sector too which has been expanding for almost a decade being shattered. The complex tax system not only resulted in burdening the people with large taxes, but is also weakened national enterprises. The interest rates increasing from 14 percent to as high as 17 percent and the rapid depreciation of the exchange rates, created an uncertain environment for businesses. The overall investment which was 32.3 percent of GDP in 2014 fell to 27.4 percent in 2019 and this is well reflected with the end result of leaving 483,000 unemployed.

Honourable Speaker, our accomplishments in 2020 even amidst many challenges are considerable. Of which, one of the key achievements is solving the unemployment issue of more than 60,000 graduates which had prevailed for years. By now, jobs have been provided to nearly 40,000 people under the programme to provide jobs targeting 100,000 people from the poorest of the poorest families. Our aim is to complete the 100,000 target before the end of this year.

Honourable Speaker, we have reduced VAT and NBT from 17 to 8 percent and increased the applicable turnover threshold for VAT to Rs.25 million per month (it was Rs. 1 million per month previously) exempting most Small and Medium scale businesses from VAT, removed income taxes on agriculture, plantation crops, livestock and farm activity and removed the PAYE tax on information technology related jobs and foreign employment. By reducing the annual interest rates on Treasury Bills and Treasury Bonds from 15 to around 5 percent, not only were we able to reduce the pressure of interest cost but was also able to disburse loans amounting to almost Rs.250 billion to those public and private entities that was struggling. We were able to stabilize the exchange rate, which

was steadily depreciating then at around the Rs.185/- level and to service the foreign debt of USD 4,200 million averting the country being classified into a debt default status.

We were able to ensure a minimum price for paddy at Rs.50 a kilogramme while stopping the import of rice, and also provided an attractive guaranteed price to expand the production of paddy, maize, grains, potatoes and onions by managing the import taxes. Under the 100,000 km of roads programme, 3 projects of 10,000 km are being implemented, 10,000 bridges are being constructed, while 5,000 bridges have reached the final stage of construction. Pipe borne water connections will be provided to 429,000 houses under the "Water for all" programme. 14,000 houses under "One House for One Village" programme are being constructed while the first 20,000 houses of the 100,000 houses programme under the Urban Development programme have also commenced.

Honourable Speaker, the outstanding bills to medical and fertilizers suppliers and contractors had been settled through the Vote on Account and the required provisions are included in the Appropriation Act. The vision of our government is to strengthen the state enterprises instead of privatizing them. In order to strengthen the enterprises, professional boards of directors have been appointed and it is also required to infuse state capital.

Sri Lankan Airlines (SLA) is the national carrier. Due to the suspension in 2015 of the 2013 commenced programme to strengthen the SLA by infusing capital of USD 500 million over 5 years, and the subsequent efforts to privatize the SLA, has made it financially weak. As such, it is expected to infuse USD 500 million of capital in the medium term and of which USD 150 million would be provided in 2020. At the same time, several expenditure heads included in the Appropriation Bill will be amended and I hereby table those amendments. I also propose to increase the borrowing limit stated in

the Appropriation Bill by Rs.180 billion. I the summary of the budget for 2020 and the note on the borrowing limits is also tabled. At the same time, I also propose to amend the guarantee limit to 15 percent as stated in the Fiscal Management (Responsibility) Act.

Honourable Speaker, the policy of our government as stated in the budget is to change the disastrous socio economic path that the country has embarked on, in the last five years. If the country is to achieve economic independence then it is mandatory that we change course. It is the responsibility of our government to reduce the income-expenditure gap to 4 percent of GDP by 2025 which now stands at nearly 10 percent and to reduce the overall debt to GDP to 75 percent of GDP within the next 4 years. It has become a national need to change our mind set to have faith in a production economy that supports exports and domestic production capabilities with less imports. A market economy that is dependent only on tea and apparels, with imports that is twice that of the exports without value additions to local resources and raw materials, will not facilitate a sustainable development. Development aspirations of the people could not be met depending only on import led consumption and industrialisation without focus on Food security and agro industrialisation and allied services based on agriculture, fisheries and livestock development. We have to, not only convert a negative economy to a positive high economic growth rate of 6 percent, but such growth should result in the eradication of poverty. I wish remind this house that this is the vision of the "Vistas of Prosperity" policy as presented by HE the President Gotabaya Rajapaksa.

I will present the proposals to create a modern economy in our country through "Vistas of Prosperity" to this House, through the budget speech 2021 on 17 November 2020.

May the Triple Gem bless you!

