

# Budget Feedback

**Farah Mihilar**

THE PEOPLES ALLIANCE GOVERNMENT'S FOURTH budget was passed in Parliament on the 19th of November. After two weeks of intense debate which saw the government promoting the budget and the opposition tear it to pieces it was finally approved by both parties. The budget proposals for the year 1997/98 were presented to parliament by deputy finance minister Prof. GL Peiris on the 5th of November. Prof. Peiris went through six hours of a common yet courageous ordeal of outlining the country's economy in the year ahead. Prior to his presentation, analysts predicted the budget would provide key incentives to a few sectors like garments, tourism and agriculture. Apart from that they expected nothing special. But on November 6th the government shocked most people in the corporate sector. The proposals not only complied with the predictions, it extended the list to many other sectors, and all in all provided a comprehensive and praise-worthy budget.

The private sector shared mixed feelings on the budget. The three Chambers of Commerce which represent the corporate sector acknowledged the positive aspects. **Chairman of the National Chamber of Commerce of Sri Lanka Armyne Wirasinghe** pointed out that this budget opened the doors for investment. "The idea is to strengthen the private sector to induce investment." He explains that when the private sector produces good results it results in economic growth.

Some of the budget proposals applauded by the NCC include, the incentives to the hotel sector, the importance attributed to the agriculture sector and the granting of worker related incentives. The latter Wirasinghe says is very important because Sri Lanka currently lacks labor flexibility. The various benefits granted to the private sector and the conditions created to lower interest rates he says, should ensure the growth of the economy.

**Chairman of the Federation of Chambers of Commerce and Industry Patrick Amerasinghe** says 'overall in the current context the budget itself is good, problem is how much can be implemented. According to Amerasinghe the proposals in the current war situation are attractive. He calls it an investment

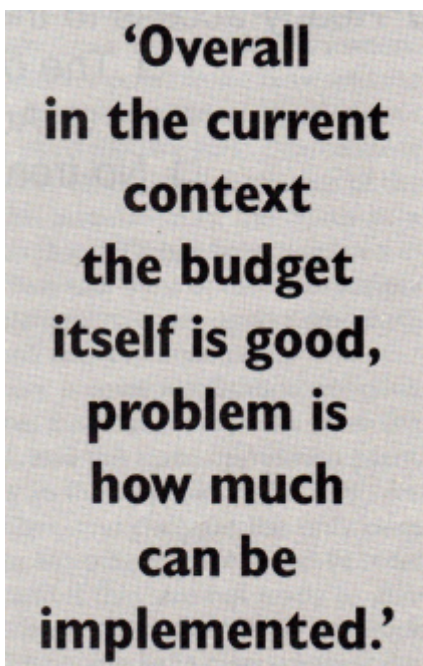
oriented budget which leaves much room for private sector involvement.

**Deputy chairman of the Ceylon Chamber of commerce and CEO of John Keells Holdings Ken Balendra** called it an excellent budget saying it incorporated most of the proposals put forward by the private sector. “It is a development oriented budget focusing on selected sectors’ says Balendra. He added however that speedy interpretation and implementation is vital.

**Group director of the Maharaja Organization Senarath Kapukotuwa** in a brief statement to “Business Today’ said it was the best budget that could have been presented in the current environment.

**Chairman of Hatton National Bank Rienzie Wijetilleke** said he welcomes certain developments in the budget like incentives to certain industries but added however that the government had not been able to address some other issues like providing specific assistance to the debt market.

Wijetilleke explains



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that the government expects the private sector to take the initiative in infrastructure development but most private sector organizations don’t have the resources he says. The Government should play the primary role and the private sector the secondary role.

The key institutions set up to attract investment in to this country were also pleased with the budget. In the absence of Thilan Wijesinghe director general of

the Board of Investment 'Business Today' spoke to MPT Cooray deputy director general of the Board of Investment who said the budget clearly paves the way for investment. The required conducive environment has been created by the government, it is up to the private sector to work on it he says. He was impressed by the many incentives granted to selected sectors. The Government this year has identified electronics, related industries, ceramic and glassware industry, rubber based industries, engineering industry and industries related to cutting and polishing of gems, diamonds and manufacture of jewelry as thrust industries to attract new investment. These industries will be offered BOI facilities. As a result of the budget Cooray says the BOI will have to take over more responsibility 'We will have to play a large role in facilitating and promoting the sector and we do believe we will have good results,' he says.

Chairman of the Public Enterprise Reform Commission, (PERC), Mano Tittawala shares a similar view. I think it was basically good because it was investor oriented.' 'It also gives key incentives to industries like garments which eases the bottlenecks in these industries' he says. He too emphasizes the need for the private sector to now take advantage of the incentives and start investing in most sectors. Last year PERC contributed 21 billion Rs to the economy which according to the President, if accounted for would have reduced the budget deficit to almost 4%. This massive figure was achieved despite the target being set at 6 billion. Next year's target has been set at 8 billion Rs and Tittawala says without hesitation 'we are confident we can achieve it.'

An important factor of this budget is that it has come to the mercy of several affected industries which badly needed a boost from the government. Among them was the tourism and hotel sector. The effects of several bomb blasts in the city resulted in a major decline in tourist arrivals last year. The hotel sector suffered major losses and most could not even facilitate maintenance costs which resulted in the gross negligence of several hotels. Apart from the removal of duty for the re-furbishing of hotels with more than 50 rooms, the sector is also the recipient of many incentives which have been welcomed by those in the sector. Kumara Senaratne, general manager operation Jetwing Hotels says it is pleasing to note that the sector which has been ignored by previous budgets has finally been taken care of. The tax reduction is definitely good, most hotels will benefit from it' he says. The duty free concessions to refurbish certain hotels has also been appreciated 'I hope however that this will be extended to hotels with less

than 50 rooms because there are also a lot of small hotels that need to be refurbished' he adds. The only disappointing factor he points out is that the sector, was not given an 'export sector status which would have attracted greater benefits.

Another neglected industry which received benefits this year is the textile industry. The industry is heavily dependent on the import of raw materials and the lack of duty concessions has been a thorn in the development of the sector. 'We have been lobbying for duty-free imports of fabric, with this change the control mechanism that exists today for the importation of textiles will be dismantled' says Ashroff Omar chairman of Sri Lanka Apparel Exporters Association. The provisions he says will now enable small traders to develop their business. Critics point out that these proposals could seriously affect the local textile manufacturers who will be eliminated from the service with the increase in imports. Ashroff Omar acknowledges this but explains that the government has already appointed a high powered committee to look into developing the old traditional textile mills to prevent their extinction.

The agriculture sector has also received some emphasis this year. In an attempt to involve the private sector in the development of agriculture a 100% investment tax allowance has been granted while several other concessions including the removal of duty on fertilizer and agricultural equipment have been proposed. Chairman of NCC A Wirasinghe says these proposals are valuable because the agriculture sector plays a vital role in the economy and is often ignored because of an over emphasis on industrialization."

Most of the incentives granted to these industries were expected prior to the budget but what came as a surprise was the inclusion of gold, gem and jewelry industry into this list. President of the Sri Lanka Gem Exporters Association Nawfel Jabir says. this budget gives a boost to the trade. The free import of gold tools gives a big encouragement to the industry he says. Without these concessions the prices would have sky-rocketed creating a fall in sales, he explains. This sector probably received the most amount of incentives apart from several duty concessions the Government has proposed to free the industry from income tax and national security levy. We will now have more ex- ports, more employment and more tourist sales' he says. Growth he says can improve 'it may double or treble but it will all depend on the government's cooperation after this.

Another commendable aspect of this budget is the recognition of the need to develop and elevate the standard of technology in this country. CEO, Millennium Information Technologies Ltd., Tony Weerasinghe says the computer indus

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try is pleased with the budget 'The tax concessions will stop the gray market' he says referring to small companies which buy cheap computer parts, assemble the machines locally and sell them at a lower price. As a result of the budget the original brand name computers will be affordable to everyone he explains. This will encourage more people to get into automation' says Weerasinghe. The biggest benefit of the budget is a proposal to give grants to software houses he says. This will encourage these establishments who were earlier dependent on expensive foreign training to develop and expand. "The president has declared next year IT year, as a result of the budget, the industry should boom' he adds confidently.

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Another beneficiary of this budget is the Colombo Stock Exchange. After a depressed year last year the Stock Exchange appears to be pleased with the concern paid to them. **General manager of the CSE Rajiva Bandaranayake** named, the reduction in stamp duty on initial public offerings, the reduction in tax rates for companies that wish to list in the Stock Exchange as important features which encourage more companies to list in the CSE. The proposals have also encouraged investment into the market the reduction in the Cess fee charged by the Security and Exchange Commission will directly benefit the investor by reducing the trading cost he says. Another very significant proposal he names is the establishment of 'settlement guarantee and compensation fund". This would help out investors who may be seriously affected by any financial shocks.

The businessmen and corporate heads all had their views but finally it was the politicians who approved the budget making it law. A few of them share their ideas with "Business Today". 'Contrary to the government portraying it to be a people's budget we feel it is a budget to please the private sector, that also select groups of the private sector' says **UNP MP Mahinda Samarasinghe**. He explains that the government intended by this budget to create a trickle down effect where incentives are granted to the private sector and their growth trickles down to the masses in the process they have forgotten their promise to increase employment' he says. Samarasinghe explains that unemployment is a major problem in the country that should have been dealt with in the budget.

**UNP MP Kabir Hashim** who is also an economist calls this budget an 'illusionary budget' which though appears to be beneficial in reality is not. "A cross-section of the economy like the local agricultural sector and local industries

do not have much to gain' he says. Hashim explains that incentives have been given to certain industries like the dairy industry which however much you develop, can perform only to a certain limit due to the strong competition from places like neighboring India. Adding that other areas like the local egg and poultry producers have been completely ignored in this budget.

**NDUNLF MP Ravi Karunanayaka** says the Government has maintained the policy of getting the private sector involved in the local economy. Which he looks upon as a positive aspect. He warns however that there are occasions where the benefits of the budget have been restricted by other proposals. He sights the example of countering the incentives to the textile industry with the relaxation of imports of finished garments.

**Minister for Industrial development CV Gooneratne** told the Business Today' that this is the most development oriented budget in Sri Lanka's post independent history. The further incentives given to the industrial sector, giving non BOI companies BOI status will no doubt be a further impetus to the industry."

Amongst the first to comment on the budget were the research groups most of whom provided a comprehensive analysis on the budget. A notable feature was that almost all research firms analyzed the budget positively. Basically the budget is positive it shows the commitment to maintain the budget deficit at a low level' says **Rajiv Cassie Chetty manager research CT Smith Stock Brokers**. He explains that the budget shows a certain amount of financial discipline which means that interest rates will remain low and investment will increase.

**Panduka Ambanpola manager research Jardine Fleming HNB Stock Brokers** says 'in terms of capital market intention is very clear if you look at the incentives given government is attempting to boost the capital market and to increase market capitalization. A fact mentioned by Cassie Chetty as well, 'Very positive incentives to capital marker" he says. Most analysts agree that this budget is probably the best for the capital market.

It seems to be a fairly investor-friendly budget, says **economist Azra Jaferjee**. She compliments the government's efforts to attract more investment but adds 'It is a gamble, they are gambling on the fact that the incentives will result in economic growth if the gamble pays off, it would be good otherwise there could be slight fiscal slips."

The general consensus on the 1997/98 budget appears to be positive. Most describe it as 'investor-friendly. At a press conference on November 6th President Chandrika Bandaranaike Kumaratunga chose to extend the description. She called it a people's budget referring to the many benefits the people will gain by a growth in the economy. Prof. Peiris strongly attacked opposition views that the general public of this country were ignored in this budget. He said several projects are to be implemented including opening new garment factories which would generate further employment while several billions of rupees is to be granted for the development of rural infrastructure. The proposals seem to have brought about praise from many sectors in the economy, but as former finance minister Ronnie de Mel said the test is in its implementation.