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2020 budget deficit could rise to 7.9-pct of GDP amid tax cuts: IMF

ECONOMYNEXT — Sri Lanka's 2020 budget deficit could rise to 7.9 percent of gross domestic product from an earlier forecast 5.3 percent and 6.2 percent in 2019, the International Monetary Fund has said.

This is the highest since 2015, when a so-called 100- day program of the newly elected administration de-stabilized state finances.

The IMF said the primary deficit of the budget — a measure that removes the effect of rate hikes giving the central bank a free hand to allow rates to move up and avoid printing money and maintain monetary stability — See 2020 p4

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would rise to 1.9 percent from a projected 0.7 percent surplus.

Sri Lanka has slashed value added tax, and a series of direct taxes, in a bid to 'stimulate' the economy, which was hit by the after effects of a currency collapse in 2018 which sharply depreciated the rupee against the US dollar.

Sri Lanka runs payment arrears during the last few weeks of the year in a bid to understate the deficit and repaying them early next year, sometimes with foreign market borrowings or printed money (provisional advances).

"Under current policies, as discussed with the authorities during the visit, the primary deficit could widen further to 1.9 percent of GDP in 2020, due to newly implemented tax cuts and exemptions, clearance of domestic arrears, and backloaded capital spending from 2019," IMF mission chief Manuela Goretti said in a statement.

"Given risks to debt sustainability and large refinancing needs over the medium term, renewed efforts to advance fiscal consolidation will be essential for macroeconomic stability."

Sri Lanka has not presented a formal budget for 2020, but is operating on a vote-on-account limited to the first four months of the year, when general elections are expected to bring in a new parliament.

Finance ministry has asked parliament to support a supplementary estimate of 155 billion rupees to support payment arrears amid the tax cuts. There were also foreign debt projects which were not provided for, parliament was told.