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FT View

Elusive quest for growth

THE latest World Bank report has downgraded growth for South Asia, warning that an increasingly turbulent external environment will impact development across the region and make growth harder to achieve.

This is especially true of a country like Sri Lanka, which is seeing its economic expansion in 2019 struggle to get past the 3% mark. And there are no easy answers despite what presidential candidates may say.

The latest edition of the South Asia Economic Focus, Making (De)centralization Work, finds that strong domestic demand, which propped high growth in the past, has weakened, driving a slowdown across the region. Imports have declined severely across South Asia, contracting between 15% and 20% in Pakistan and Sri Lanka.

In India, domestic demand has slipped, with private consumption growing 3.1% in the last quarter from 7.3% a year ago, while manufacturing growth plummeted to below 1% in the second quarter of 2019 compared to over 10% a year ago.

Compared to six months ago, GDP growth is revised downward by 1.1 percentage points for this year and by 0.8 and 0.4 percentage points for the next two years. At 5.9%, growth in 2019 is now forecast to be 0.7 percentage points lower than growth in 2018 for the entire region.

Compared to earlier forecasts, less private consumption and more government consumption is expected. The projected modest recovery to 6.3% in 2020 and 6.7% in 2021 is tentative as forecasts under current circumstances, particularly for investment, are highly uncertain.

The World Bank expects Sri Lanka's economic growth to decelerate to 2.7% by the end of this year from an earlier forecast of 3.5% in June amid security challenges and political uncertainty. During the second quarter of this year, the economy grew by 1.6%, the slowest pace in more than five years.

The medium-term outlook is subject to the country's ability to ensure political stability and a return to normalcy. Growth for 2019 is expected to be at 2.7%, as many important economic sectors show relatively weak performance. The Central Bank of Sri Lanka has a somewhat rosier prediction of 3.1% but has admitted that dampened investor sentiment is unlikely to change until about March 2020 when the Presidential and Parliamentary Election cycle is expected to wind down.

The report calls on the Sri Lankan Government to remain focused on (a) continuing fiscal consolidation by broadening the tax base and aligning spending with priorities; (b) shifting to a private investment-tradable sector-led growth model by improving trade, investment, innovation and the business environment; (c) improving governance and SOE performance; (d) addressing the impact of an aging workforce by increasing labour force participation, encouraging longer working lives and investing in skills to improve productivity; and (e) mitigating the impact of reforms on the poor and vulnerable with well-targeted social protection spending.

This list has at best been laid aside if not forgotten entirely by the Government as it focuses on winning the Presidential Election regardless of cost. Already massive public sector salary increases have been pushing into the pipeline from January, SOE reform has been delayed for years and policies for encouraging export and investment have had mixed results. The biggest challenge of these reforms is that none of them are short-term and regardless of which Government comes to power they will find it tough going to tread this path.

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