Sri Lanka needs an economic plan to achieve high economic growth

Sri Lanka’s recent economic performance has been mixed. The country is trapped in a growth conundrum. While the economy has continued to expand, growth has been low and decelerating in recent years. The country needs structural and other reforms necessary and critical to unlocking impediments to growth.

Sri Lanka needs higher growth to contain the budget deficit. The level of public debt is high and unsustainable under the prevailing growth environment. Further deterioration of fiscal balance could lead to more borrowing by the government and build-up of more debt. Improving the trade balance and thereby the balance of payments deficit also require higher growth.

Sri Lanka has now reached the level of an upper-middle income economy. This means that the country can no longer rely on external finance and aid to sustain growth. The focus must be on internal sources of finance and growth.

The composition of the economy in terms of the expenditure on GDP, the data show (Table 2) that private consumption expenditure (C) constituted 70% of the Sri Lankan economy in 2018, making it the largest share of the economy. The second largest expenditure component is investment expenditure with a share of 28% in 2018. Government expenditure is 9% of the economy which is expected to increase in the years to come.
balance and thereby the balance of payments deficit also require higher growth. Sri Lanka has now reached the level of an upper-middle-income economy. Achieving a high-income status will require higher and sustained growth. With reasonable assumptions regarding key variables influencing growth, a 5% annual growth will take Sri Lanka about 20 years and a 6% growth about 15 years to become a high-income economy.

**Overall economic growth**

In terms of the overall economic growth, over the past 10 years (2009-2019), Sri Lanka recorded an average annual growth of 5.4% in real terms.

This period consisted of two different growth episodes: In the five-year period from 2009-2013, which was the period immediately after the end of the 30-year civil war in May 2009, the economy grew at an annual average rate of 6.5%. The higher growth was particularly impressive in the three years after the end of the war where the growth was 8.0% in 2010, 8.4% in 2011, and 9.1% in 2012, showing continued high growth momentum.

However, this momentum broke with growth declining substantially to 3.4% in 2013, and in the last five-year period of 2014-2018 the average annual growth declined to 4.2% which is more than 50% of the figure for the previous five-year period. Moreover, growth has shown continuous declines since 2015, and the growth in 2018 of 3.2% was the lowest in 16 years.

**Sectoral growth performance—Agriculture, industry and services**

In terms of the sectoral composition of the economy (Table 1), the services sector is the largest contributor to the overall growth, followed by the agriculture sector and then industry.