

Economy in 2020

THE incoming year will be a decisive one for the economy. The stabilisation that saw a tortured start in 2019 is set to continue, but optimists in the market are anticipating an end to the chokehold of high interest rates and the aggressive taxation drive sometime in the early months of 2020. The growth rate has plummeted while forecasts say the economy should register a growth rate of between 2.5pc to 3.5pc by the end of the fiscal year. Manufacturing has hit one of its lowest ebbs ever, except perhaps for the years immediately following the great crash of 2008, while private investment and business confidence have also been lacklustre. Even as the economy chokes under the stabilisation measures adopted out of necessity by the government in 2019, the incoming year presents some promise of change.

The prime minister has already begun promising a shift in the focus of economic management away from stabilisation towards growth. In multiple forums over the past few weeks, he has declared the economy stable and the time to move towards growth to now be imminent. These words are partially responsible for fuelling a sense of optimism among certain sections of the business community about the new year. If interest rates are to be reduced and the level of government spending, especially on development projects with strong linkages across various sectors of the economy, picks up, a return to growth and reinflation of aggregate demand can spur economic activities quickly. Interestingly however, the prime minister's finance adviser is a little more circumspect when talking about transitioning to growth, but even he is promising greater dedication of fiscal resources to encourage export-oriented sectors.

Still, a lot depends on how the fiscal numbers turn out and how stable the reserve accumulation that has taken place thus far remains. Business groups are asking when growth will return, whereas the government must ask itself whether we are in a position to afford growth at the moment. The fiscal numbers seem to be improving, even if largely on the back of excruciating expenditure cuts, and reserves had only in recent months reversed a long trend of continuous declines. But if there's a sudden move to apply the accelerator at this point and reignite domestic demand, the deflation of which is the core aspect of the ongoing stabilisation programme, the same deficits could reappear again. Instead of keeping the focus on growth, the government should present 2020 as the year of reform and outline in detail its plans for the state-owned enterprises, the power sector and the future of administered pricing regimes as well as the overhaul of the regulators to ensure a competitive playing field going forward. More than raw growth, let 2020 be the year the country arrests and reverses the steady erosion of its productivity. That would make for a very happy new year indeed.