Abstract

In recent years the economies in South Asia have experienced remarkably high growth rates of domestic output. However, growth in many cases has been uneven across sectors. While in particular services and construction have been expanding, manufacturing and agriculture have been growing much more slowly. In this paper we empirically evaluate this asymmetry across sectors in a historical data from Sri Lanka, starting in the 1970ies. Our main finding is that tradables and non-tradables goods producing sector react quite differently to changes in domestic credit. We point out that in this respect Sri Lanka is reminiscent of a very broad cross section of middle income countries, where the same stylized fact has been observed. We explain our findings in the context of a 2-sector growth model of Tornell and Schneider (2004). We argue that Sri Lanka shares important features of countries that have grown through a process of boom bust cycles after financial liberalization.

Keywords: Financial Development; growth; agriculture; poverty

JEL codes: O11, O16, O53, F41