

## **The Impact of COVID-19 on Sri Lankan Economy**

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### **Abstract**

COVID-19 is the communicable disease caused by the most recently discovered Corona virus. This new virus was unknown before the outbreak began in Wuhan, China, in December 2019 (WHO, 2020). All the affected countries have been looking for a safety precaution while few countries are researching the specific vaccine against Corona virus but now the situations have gone out of hand due to lack of awareness and management. Sri Lanka has made great procedure in controlling the spread of COVID-19 more than six months into this pandemic; however the threat is not over yet. This research examines the economic impact of covid-19 on Sri Lankan economy and the specific objectives are to identify the outbreak on the key economic income earning sector such as tourism, food and agriculture, exports of apparels and textiles and small and medium scale enterprises and to find out the solutions and recommendation to reinvigorate the Sri Lankan economy. This research study is based on the secondary data such as published, export revenue report, WHO statements, annual report of CBSL and newspaper articles. Mainly, secondary data analyzing method was used to interpret the result. This study found that key income earning sectors such as agriculture, tourism, apparel and textile and small medium enterprises have been affected by this pandemic. The total export revenue of tea was USD 347.3 mn in 2019 and it was reduced by 270.1 USD mn in January to March in 2020. Earnings from some of other agricultural sectors such as fruits and vegetable products (15.9 USD mn), coconut production (136.9 USD mn) have significantly decreased in March 2020 compared to March 2019. In 2019 from January to June, earning from tourism was 1,901 USD whereas it was the least amount of 956 (from January to June) in 2020. This was due to the restriction imposed in the airport ways and cancellation of visas. The sales of more than 80% of the small medium enterprises declined due to delayed or cancelled orders by domestic and foreign buyers. COVID-19 pandemic has created many negative effects on key income earning sectors. Increase in the demand for alternative tourism including eco-tourism, giving low-interest working capital loans to small-scale retailers, wholesalers and small medium enterprises will shift a portion of their business in online and also the District Chamber of Commerce should initiate a courier service as another form of home delivery. These recommendations should be implemented to rebuild the economy.

**Keywords:** Covid-19, Tourism, Apparel and Textiles, Small medium enterprises (SMEs), Agriculture.

### **1. Introduction**

Covid-19 is the communicable disease caused by the most recently discovered Corona virus. This new virus was unknown before the outbreak which began in Wuhan, China, in December 2019

(WHO, 2020). All the affected countries have been looking for a safety measure while few countries are researching the specific vaccine against Corona virus but now the situations have become most outward from the safe hand due to lack of awareness. It's a known fact that there is a small amount of death roll in Korea due to the home quarantine when compared to the countries like Vietnam, Thailand, and Cambodia where the institutionalized quarantine is being implemented (Economic next, 2020). 212 countries, territories or area territories or areas had reported confirmed disease of Covid-19 in the first four months of 2020 (WHO, 2020).

The efforts of global leaders and medical experts to minimize the spread of the virus that can be seen with the implementation of movement control, increased expenditure on healthcare and travel bans. Even though the country is to give the chief preference to the wellbeing of its population instead of the above crisis, it is crucial to address to the economic impact of covid-19 as well. Experts have labeled it as the worst economic shock in recent history, ironically unprecedented, and not brought about by any existing shortcomings in their country's economic performance (Pulse, 2020).

Sri Lankans were found positive for Covid -19 on 10<sup>th</sup> March, 2020 and now with the number of Covid-19 patients in Sri Lanka, it is fast approaching 10,000 cases. The country is on the verge of a critical pandemic situation. "The danger is that countries which had reached 10,000 in terms of corona virus infected persons had seen the figures doubling in no time" (The Island, 2020). Sri Lanka continues to closely monitor the situation and to strengthen preparedness and response efforts. Administrative officials are closely working with key partners to effectively and efficiently combat COVID-19. During the period of pandemic, Sri Lanka has successfully labeled it, however the threat is not yet over (WHO, 2020).

As a result of the concern of this pandemic, it causes to increase the negative impact on the SriLankan economy. The financial strength of the country is being affected because of island wide strict curfew, issuing travel bans to other affected countries and closing of ports and airports, public private partnership to aid SriLankan households obtain emergency supplies, aggressive social distance measures implemented in the entire country, emergency health and economic measurers. These measures are having a huge impact on people's lives, families and communities while having significant consequences on national economies and global trade. The economy of Sri Lanka shrank by 1.6% in the first quarter of 2020 and by a 2% growth (Department of census & Statistics, 2020). Therefore, the main objective of this study is to identify the impact of covid-19 on Sri Lankan economy and the specific objective is to identify the crisis on the key economic income earning sectors which are tourism, apparels and textiles, small and medium scale enterprises.

## **2. Literature Review**

In accordance with Roshana and *et al.* (2020), this study aims to identify the impact of Covid-19 on the Sri Lankan economy. Quantitative and qualitative methods were used to gather the information. This study was based on the secondary data such as published WHO statement, research articles, and newspaper articles. How economic indicators such as remittance, exchange rate, purchasing manager index, and revenue from the tourism and apparel sectors are impacted by the Covid-19 pandemic. Data were analyzed with the help of descriptive way showing charts and graphs. The result of this study revealed that the sectors which are identified to suffer the most during this time are apparel, agriculture and tourism, retail and consumer sector and above-mentioned indicators were affected by the covid-19 outbreak. Therefore, strategic policy measures should be undertaken to alleviate the economy of crisis in Sri Lanka.

Stephen Kidd and *at all* (2020) aim to examine the impact of economic crisis in Sri Lanka created by covid-19 pandemic, evaluate the effectiveness of initial response of the government and propose a package of social protection protocol for children. Quantitative and qualitative methods were used for gathering information. This study was based on the secondary data such as published WB statement, research articles and down calculation on the HIES, UNICEF & UNDP reports. Data were analyzed with the help of descriptive way. This study found that the covid-19 set back the Sri Lankan economy and causes the unemployment, poverty, deprivation with household that have children, older people, and other persons being particularly vulnerable.

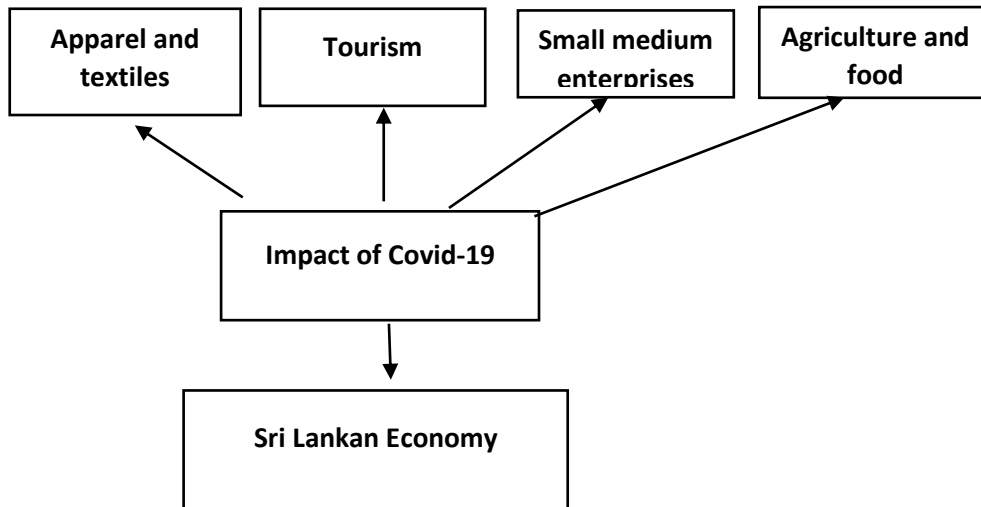
In the view of Harish Chandra & at al. (2020), this study aims to identify negative impacts and assess the immediate economic impacts of the covid-19 in Sri Lankan economy. Quantitative and qualitative methods were used for gathering information. This study was based primary and secondary data collection method. Online questionnaire method and in-depth interview by means of telephone were conducted for gathering primary data and a sample of 15,000 households were chosen and 1087 usable responses were received covering 22 administrative divisions in Sri Lanka. Central Bank report and report of tourism development board were used as the secondary data. This research found that Sri Lankan economy in second and third quarters of 2020 recorded a negative growth. Income level of the household, tourism receipts, foreign remittance, and earning for garments and textiles were out break due to the Covid-19.

According to Deyshappriya (2020), the study vividly examines the impact of Covid-19 on GDP, employment, inflation, stock market, external sector performance, and poverty in the context of Sri Lanka. Quantitative and qualitative methods were used for gathering information. This study was based on the secondary data such as report of CBSL, censuses and statistic report, and statement of poverty index. Data were analyzed with the help of descriptive way showing charts and graphs. The result of this study found that Covid-19 on GDP in Sri Lanka, despite magnitude of the impact, is significantly lower than that of South Asian averages. Apart from that, panic buying, interrupted domestic production, and distribution on imports have created an inflationary pressure on the economy led by headline inflation. Moreover, this pandemic affected Colombo stock market in low mid-March 2020 and there is a gender potential of increasing poverty incidence in the pandemic situation of Sri Lanka but this study mainly tried to find out the economic impact of covid-19 on Sri Lankan economy and the specific objectives are to identify the outbreak on the key economic income earning sectors such as tourism, food and agriculture, exports apparels and textiles, and small and medium scale enterprises and to find out the solutions and recommendation to reinvigorate the Sri Lankan economy.

### **3. Methodology**

This study is based on the quantitative and qualitative data analysis in order to achieve the objectives. This research is based on the secondary data sources such as report of Central Bank of Sri Lanka, Asian Development Bank (ADB) report, published research articles and news papers, report of Sri Lanka tourism development authority, report of WHO, and other various journal. Mainly, secondary data analyzing method was used to interpret the result. Moreover, this research had a main framework of this study. This conceptual framework explained how key income earning economic sectors are disrupted by the Covid-19 pandemic and this framework has been made according to the production approach that shows in the below figure 1.1.

Figure 1.1: Conceptual framework of this study



## 4. Result and Discussion

### 4.1 Impact on Apparel and Textile Exports

Table: 1 Total export revenue of Apparel and Textile

Year	Share of Apparel and Textile(Mn)
2019	USD 1469.7
2020	USD 1250.9

Source: Sri Lanka Export Development Board (SEDB),2020.

The above chart shows that total export revenue from apparel and textiles in the year 2019 was at USD 1469.7 Mn whereas it was reduced by USD 1250.9 Mn from January to March in 2020 (SEDB, 2019). As the major markets confronted by the restrictions on mobility and events have happened to experience multitude of challenges of Covid-19, Joint Apparel Association (JAAF) estimates that approximately 100000 people who are engaged in the industry will be cut of employment owing to the Covid-19 pandemic impact. Around 300 garment factories employ 990,000 and over one million people are indirectly dependent or employed. JAAF is also of the view that despite the fact that apparel exports are picking up in recent months, as a whole in 2020, its export rate of 2 billion is likely to be lower than last year (Daily FT, 2020).

On the basis of PMI data as mentioned in February 2020 provided by CBSL, “New Orders” and “Employment” particularly in the manufacturing of textile and wearing apparel sector slow down with the plunge in global demand. The Corona virus outbreak has affected major export destinations of Sri Lanka such as Italy. It has been affected by the outbreak of Covid-19. Further, respondents of the PMI noted that their raw material imports have been held up due to supply-side disruptions due to the pandemic outbreak. As a consequence, enterprises anticipate a decline in manufacturing in the short term.

#### **4.2 Impact of Covid-19 on agriculture sector**

Table: 2 Export Earnings of Sri Lanka by Agriculture Products (2019 – 2020)

<b>Production Category</b>	<b>January to March (2019) USD Mn</b>	<b>January to March (2020) USD Mn</b>
Tea	347.3	270.1
Rubber products	241.3	203.4
Fruits & Vegetables	19.2	15.9
Food, Feed & Beverages	109.3	87.0
Coconut products	159.6	136.9

(Source: Sri Lanka Export Development Board, 2020).

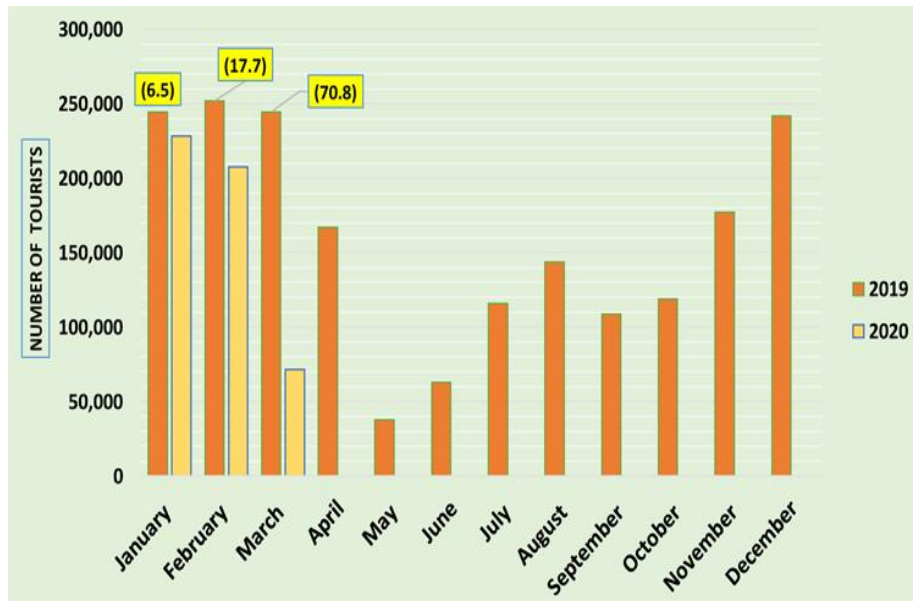
Agricultural industry is one of the major income earning sectors in Sri Lanka's economy. In order to this, the farming division represents fewer than 10% of the national creation; this segment utilizes more than 33% of the all-out work power of the country. The above chart shows that total export revenue from agricultural production in the year 2019 and 2020 from January to March. The total export revenue of tea was USD 347.3 USD Mn in 2019 and it was reduced by 270.1 USD Mn from January to March in 2020. According to the table no: 2, export revenue of rubber production of Sri Lanka reduced by 203.4 USD Mn in March 2020 compared to March 2019. Coconut production has been one of the major income earning productions of agricultural sector of Sri Lanka. Apart from that, earnings from some of the other sectors such as fruits and vegetable products (15.9 USD Mn), coconut production (136.9 USD Mn) have significantly decreased in March 2020 compared to March 2019.

The Covid-19 infection episode is required to affect the nation's farming area partially because of supply interruptions. The government of Sri Lanka has urged the cultivating networks to proceed with the exercises and furthermore guaranteed the sufficient flexibility of manure development into the nation. Moreover, for health reasons, the major economic centers which are collection and distribution centers of fruits and vegetables will impact both farmers and consumers. Because of the supply chain disruption and wastage of perishable products, scarcity of inputs increases and ultimately raising the import prices. Agriculture exports will experience a decline in export (ICRA Lanka, 2020). Moreover, the current lockdown condition imposed in many countries has restricted international trade and therefore export earnings of Sri Lanka have significantly reduced since January, 2020.

#### **4.3 Impact of Covid-19 on tourism sector**

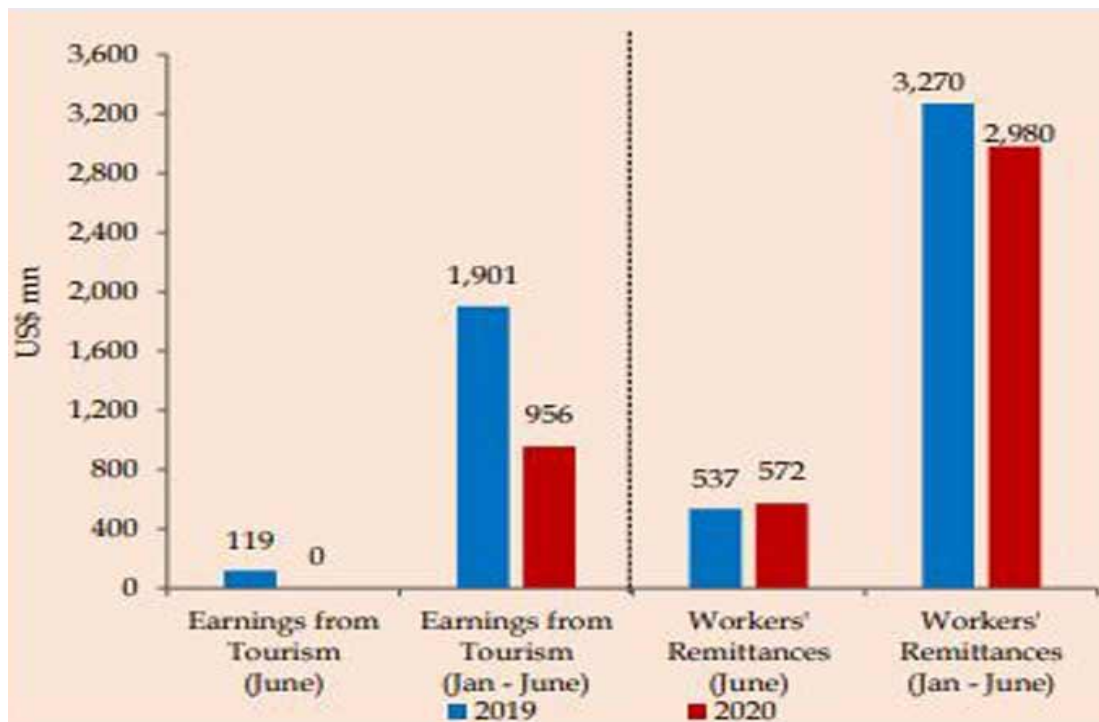
The bar chart (no: 1.2) below denoted the negative impact of tourism by the Tourism Development Authority for the period of 2019 and 2020. Number of the tourist arrival of January 2019 was at the highest of 224,239. However it increased up to 252,033 in February, 2019. Due to the unrest that took place in March in the country and there was sudden decline in the number of tourist visiting to the country. At the end of the year 2019 December, it rose up again up to 241,633. On contrary to this, in the year 2020, because of the Covid-19 pandemic, the tourist arrival was decreased all of a sudden in March by 71,370. This was due to the restriction imposed in the airport ways and cancellation of visas (SLTDA, 2020).

Figure:1.2 Monthly tourist arrivals from 2019 to 2020



Source: Sri Lanka Tourism Development Authority,2020.

Figure: 1.3 Monthly earning from tourism and workers remittance from 2019 to 2020



Source: Sri Lanka Tourism Development Authority, 2020.

The above chart depicts the revenue for the tourism industry. According to the chart (no: 1.3), from January to June, 2019, earning from tourism was 1,901USDmn. Whereas in 2020, earning from tourism was the least amount of 956Mn (from January to June) and workers' remittance was at

3270USDMn in 2019 but there was the slowdown in the workers remittance at 2,980 USD Mn because of the covid-19 pandemic(SLTDA, 2020).

#### ***4.4 Impact of Covid-19 on Small and Medium Enterprises (SMEs)***

Under a completed lockdown situation, almost all the production activities of SMEs were significantly affected by the COVID-19 pandemic while employees also suffered. Many small medium enterprises (SMEs) in Sri Lanka significantly failed to do their business as they had been unable to diversify their production processes before or immediately after the COVID-19. However, the transformation of most small medium enterprises (SMEs) for the sudden situation has been hindered by a lack of resources (obtaining raw materials), capabilities, strategic vision, and negative attitudes towards the production process of the enterprises. In creating a negative impact on both supply-side (production of goods and services) and demand-side (consumption and investment), industry and service sector enterprises in Sri Lanka (beauty parlor, salon, basic metal product, leather product, small scale textile product, and cement related business) have been blasted most severely by the COVID-19 pandemic. As they have no clear mechanism for calculating their cost of production and to distinguish profit from the total revenue, almost 60% of the micro enterprises have not kept up their account properly.

The COVID-19 encumbers on small medium enterprises (SMEs). The events and activities related to production and employment of most of small medium enterprises (SMEs) are significantly hit by the COVID-19 pandemic. Approximately 80% of enterprises were exposed to suffer a production and employment drop. More than 80% of the small medium enterprises (SMEs) declined their sales due to delayed or cancelled orders by domestic and foreign buyers. The accommodation and food service sectors which are regarded as the major part of the tourism industry are the most severely affected enterprises approximately 10% of small medium enterprises in the apparel and textile industry in Sri Lanka. Nearly 15% of small medium enterprises (SMEs) have benefited under the current crisis. Retail and wholesale trade, Ayurveda medicine activities, and computer sales have been continuing their business without a significant drop in sales (HSS,2020).

## **5. Conclusion**

This study found that key income earning sectors such as agriculture, tourism, apparel and textile and small medium enterprises have been adversely affected by the Covid-19 pandemic. COVID -19 pandemic has created many negative effects on key income earning sectors. Therefore, the government should implement some policies to rebuild the economy. The study suggests the following recommendations:

- Government should implement the quick pandemic management system and policies.
- More awareness about the social distancing and its rules, conditions. Small medium enterprises should shift a portion of their business online and the District Chamber of commerce should initiate a courier service, as another form of home deliver.
- Introduce a mechanism for the supermarkets to buy agricultural products and green harvest directly from the farm gate without a middle man.
- Low-interest working capital loans should be given to the SMEs.
- Reduce interest rates currently charged by the banks on Pledge Loans and Local Trust Receipt Loans (LTR) for wholesalers.

- To start promotional programs internationally for Sri Lankan tourism, Sri Lankan tea, Sri Lankan garments, healthcare, and education opportunities in Sri Lanka.
- Increase the demand for alternative tourism including eco-tourism. Government should concentrate these environment friendly activities with the tourism like Ayurveda and Yoga, bird watching.
- Put resources into new innovations to improve all affected economic sectors.

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