

Impact on tourism industry due to devaluation of rupee in Sri Lanka

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ABSTRACT

The tourism industry plays a critical role in the Sri Lankan economy, with the sector contributing significantly to foreign exchange earnings and employment opportunities.

However, the devaluation of the Sri Lankan rupee has affected the industry in numerous ways, including changes in inbound and outbound tourism, trends in domestic tourism, and impacts on hotels and airlines. This research study aims to examine the impact of rupee devaluation on the Sri Lankan tourism industry and analyze the strategies and policies that can be implemented to mitigate the negative impacts of currency devaluation on the tourism industry.

The research will use both quantitative methods to collect and analyze data, including interviews with key industry stakeholders and a survey of tourists. The Findings of the study will provide insights into the effects of currency devaluation on the tourism industry, and the implications for the Sri Lankan economy as a whole. Additionally, the study will offer recommendations for policymakers, industry practitioners, and other stakeholders on how to address the challenges and opportunities arising from currency devaluation in the tourism industry.

Key words; Tourism industry, issues, devaluation of rupee

1.Introduction

i.) Background study

Sri Lanka's tourism industry has been a key driver of the country's economic growth over recent years, contributing significantly to foreign currency earnings and employment opportunities. However, the industry has been experiencing challenges related to the Sri Lankan rupee. Since the devaluation of the currency, tourism industry stakeholders have expressed concern over the impact that the devaluation may have on the industry's performance.

The devaluation of the rupee has led to changes in inbound and outbound tourism trends, resulting in a decline in foreign currency earnings and reduced growth in the industry. As a result, it is crucial to examine the impact that currency devaluation has had on the tourism industry and understand the implications for the broader Sri Lankan economy. This research study aims to investigate the impact of rupee devaluation on the tourism industry in Sri Lanka, with a specific focus on exploring the effects on inbound and outbound tourism trends, in domestic, and impacts on hotels and airlines. The findings of the study will provide critical insights into the challenges facing the industry and implications for policymakers, industry practitioners, and other stakeholders.

ii.) Problem statement

The devaluation of the Sri Lankan rupee can have significant implications for the country's tourism industry. Understanding these impacts is crucial for identifying the challenges and formulating effective strategies to mitigate negative consequences. The problem statement focuses on assessing the effects of rupee devaluation on the tourism industry in Sri Lanka.

Reduced purchasing power: A devalued currency makes it more expensive for Sri Lankans to travel abroad. This can lead to a decline in outbound tourism as individuals opt for domestic travel or choose cheaper international destinations. The reduced purchasing power of Sri Lankan tourists may adversely affect revenue generated from outbound travel.

Increased costs for tourism businesses: Tourism operators that rely on imported goods and services, such as hotels, resorts, and restaurants, may face higher costs due to the devalued currency. Expenses for imported food, fuel, equipment, and maintenance can rise, impacting the profitability of tourism businesses. This can lead to potential challenges in maintaining competitive pricing and service quality.

Fluctuating demand from international tourists: While a devalued currency can make Sri Lanka a more affordable destination for international travelers, the fluctuation in exchange rates may lead to uncertainty and hesitation among potential tourists. This uncertainty can affect travel plans, resulting in fluctuations in tourist arrivals and revenue for the country.

Financial strain on tourism infrastructure development: The devaluation of the rupee can create financial strain on the development of tourism infrastructure. Construction costs,

financing, and maintenance of infrastructure projects may become more expensive, potentially delaying or limiting the development of necessary facilities and amenities for tourism growth.

Understanding these problems and their potential impact on the tourism industry is crucial for policymakers, tourism authorities, and businesses. By recognizing the challenges associated with rupee devaluation, stakeholders can develop targeted strategies and policies to mitigate negative effects, sustain tourism growth, and enhance the competitiveness of Sri Lanka's tourism industry.

iii. Research question

Impact on tourism industry due to devaluation of rupee in Sri Lanka.

iv. Objective of the study

- i.) Identify the issues impact on tourism industry due to devaluation of rupee in Sri Lanka.
- ii.) Give the solution for their issues.

Possible solutions for the impact of rupee depreciation on the tourism industry

The impact of rupee depreciation on the tourism industry can be significant, as it affects the affordability of travel and the competitiveness of the destination. However, there are several possible solutions that can help mitigate these effects.

Diversification of target markets: The tourism industry can explore and tap into new markets to attract visitors from countries where their currency is stronger against the rupee. By diversifying the target markets, the industry can reduce its dependence on tourists from countries with currencies that have weakened against the rupee.

Promotional campaigns and incentives: Tourism boards and industry stakeholders can launch targeted promotional campaigns to highlight the value for money that travelers can get in the destination due to the depreciated rupee. Additionally, offering incentives such as discounts, packages, or added benefits can further attract tourists despite the exchange rate fluctuations.

Enhancing domestic tourism: With a depreciated currency, domestic tourism becomes relatively more attractive than international travel for local residents. Encouraging domestic tourism through campaigns, special offers, and improved infrastructure can help offset the decline in international visitors.

Cost optimization and competitiveness: The tourism industry should focus on optimizing costs and improving efficiency to remain competitive. This could involve renegotiating contracts with suppliers, reducing operational expenses, and adopting technology-driven solutions to enhance productivity.

Collaboration with travel agents and airlines: Collaborating with travel agents and airlines to create attractive travel packages and discounted fares can help counterbalance the negative impact of currency depreciation. By offering competitive prices and bundled services, the industry can entice tourists to visit despite the exchange rate challenges.

Investment in infrastructure and amenities: Enhancing the overall tourism infrastructure and developing new attractions and amenities can contribute to attracting tourists. Improving transportation networks, accommodation options, and tourist facilities can enhance the destination's appeal and offset the negative effects of currency depreciation.

Government support and policies: Governments can play a crucial role in supporting the tourism industry during currency depreciation. They can provide financial incentives, tax breaks, or subsidies to tourism businesses to help them navigate the challenges. Governments can also engage in bilateral agreements to promote tourism and facilitate travel between countries.

Actions that can be taken by the government

The steps taken by the government to address the impact of rupee depreciation on the tourism industry can vary depending on the specific country and its economic policies. However, here are some common measures that governments may consider:

Exchange rate management: The government may take steps to manage and stabilize the exchange rate to minimize excessive fluctuations. This could involve interventions in the foreign exchange market, such as buying or selling currencies to influence the value of the rupee.

Financial incentives and support: Governments can provide financial incentives and support to the tourism industry to help offset the negative impact of currency depreciation. This could include offering subsidies, tax breaks, or grants to tourism businesses, especially those heavily reliant on international visitors.

Marketing and promotional campaigns: Governments can launch marketing and promotional campaigns to attract tourists despite the depreciated rupee. This may involve collaborating with tourism boards, travel agencies, and airlines to create attractive packages and highlight the value for money that travelers can get in the destination.

Infrastructure development: Governments can invest in tourism infrastructure development to enhance the overall attractiveness of the destination. This could involve improving transportation networks, upgrading accommodation options, and developing tourist facilities and attractions. Such investments can help maintain the competitiveness of the destination despite currency fluctuations.

Bilateral agreements and collaborations: Governments can engage in bilateral agreements with countries that are important sources of tourists. These agreements can include initiatives to promote tourism, simplify visa procedures, and facilitate travel between the countries. Collaborating with other governments and international organizations can also help mitigate the impact of currency depreciation on the tourism industry.

Skill development and training: Governments can invest in skill development and training programs for individuals working in the tourism industry. This can improve the quality of services offered to tourists, enhance the overall visitor experience, and increase the destination's competitiveness.

Economic diversification: Governments may consider diversifying their economies to reduce dependence on tourism as the primary source of foreign exchange earnings. By promoting other sectors and attracting foreign investments, countries can mitigate the impact of rupee depreciation on the tourism industry.

It's important to note that the specific steps taken by governments will depend on their economic policies, fiscal capabilities, and the extent of rupee depreciation. The government may adopt a combination of these measures or explore additional strategies based on the specific circumstances of the country's tourism industry.

This involves examining the challenges faced by these businesses due to increased costs, potential changes in pricing strategies, and their overall financial performance.

Competitiveness and market positioning: Analyzing the impact of rupee devaluation on the competitiveness of Sri Lanka's tourism industry compared to other regional and international destinations. This will involve studying factors such as pricing, value for money, marketing strategies, and market share in relation to the devalued currency.

Policy and regulatory considerations: Exploring the existing policies and regulations related to currency exchange rates, monetary policies, and tourism development in Sri Lanka. This includes evaluating the effectiveness of current policies in addressing the challenges posed by rupee devaluation and identifying potential areas for improvement.

V. Significant of the study

The depreciation of the Sri Lankan Rupee has significant economic, competitive, investment and policy implications for the tourism industry. It could make Sri Lanka more affordable for international tourists, increase visitor numbers and revenue, but also increase costs for tourism-related businesses that depend on imported goods and services. Understanding the effects of devaluation on the industry can help policy makers and authorities make informed decisions about promoting the industry and managing currency fluctuations. Additionally, this study can provide insight into the impact of exchange rate changes on investment costs and the country's attractiveness to potential investors. It can help policy makers formulate appropriate policies and strategies to support the tourism sector by guiding whether measures such as fiscal incentives, exchange rate management or targeted marketing campaigns are needed to mitigate the negative effects or take advantage of the positive effects of currency devaluation. Overall, understanding the depreciation of the Sri Lankan Rupee will help stakeholders make informed decisions, implement effective policies and maximize potential benefits while minimizing the challenges facing the tourism sector.

vi. Scope of the study

The scope of the study focuses on examining the specific impacts of rupee devaluation on the tourism industry in Sri Lanka. It aims to analyze the effects within the tourism sector, considering both domestic and international perspectives. The study will encompass the following aspects:

Tourist behavior and preferences: Investigating how the devalued currency influences the behavior and preferences of domestic and international tourists. This includes studying changes in travel patterns, destination choices, length of stay, and spending patterns.

Economic impact on tourism businesses: Assessing the economic implications of the devalued rupee on tourism businesses, such as hotels, resorts, travel agencies, and restaurants. This involves examining the challenges faced by these businesses due to increased costs, potential changes in pricing strategies, and their overall financial performance.

Competitiveness and market positioning: Analyzing the impact of rupee devaluation on the competitiveness of Sri Lanka's tourism industry compared to other regional and international destinations. This will involve studying factors such as pricing, value for money, marketing strategies, and market share in relation to the devalued currency.

Policy and regulatory considerations: Exploring the existing policies and regulations related to currency exchange rates, monetary policies, and tourism development in Sri Lanka. This includes evaluating the effectiveness of current policies in addressing the challenges posed by rupee devaluation and identifying potential areas for improvement.

Stakeholder perspectives and recommendations: Gathering insights and perspectives from various stakeholders within the tourism industry, including government authorities, tourism

boards, tourism operators, and tourists themselves. This will help in understanding the perceived impacts, identifying potential strategies, and formulating recommendations to mitigate the negative effects of rupee devaluation on the tourism sector.

The study will focus on the specific context of Sri Lanka and its tourism industry, taking into account the unique characteristics, challenges, and opportunities of the country. The findings of the study will provide valuable insights for policymakers, tourism authorities, and businesses in Sri Lanka to make informed decisions, develop appropriate strategies, and manage the impacts of rupee devaluation on the tourism industry effectively.

2.Literature review

A literature review on the impact of the devaluation of the Sri Lankan rupee on the tourism industry would involve examining and analyzing existing scholarly articles, reports, case studies, and other relevant sources that discuss the effects of currency devaluation on the tourism sector. The literature review would aim to provide a comprehensive understanding of how the devaluation of the rupee influences various aspects of the tourism industry in Sri Lanka. Here are some key areas that a literature review on this topic could cover:

. **Economic impact:** The literature review would explore how currency devaluation affects the overall economic environment in Sri Lanka and how these changes trickle down to the tourism industry. It would examine the relationship between exchange rates, tourism demand, and tourist expenditures, assessing whether devaluation leads to an increase or decrease in visitor numbers, tourism revenue, and foreign exchange earnings.

Competitiveness and pricing: The review would investigate how currency devaluation affects the competitiveness of Sri Lanka as a tourist destination compared to other countries in the region. It would analyze how changes in exchange rates influence the pricing of tourism products and services, including accommodation, transportation, attractions, and dining. This would help assess Sri Lanka's attractiveness to international tourists in relation to affordability and value for money.

Tourist behavior and preferences: The literature review would explore how currency devaluation impacts tourist behavior and preferences. It would investigate whether devaluation leads to changes in travel patterns, such as shifts in the origin countries of tourists, alterations in the length of stay, or modifications in expenditure patterns. Additionally, it would examine how tourists perceive and respond to the devaluation in terms of their travel decisions and destination choices.

Tourism investment and development: The review would assess the impact of currency devaluation on tourism investment and development in Sri Lanka. It would examine how changes in exchange rates affect the costs and feasibility of tourism-related investments, such as hotel construction, infrastructure development, and tourism promotion initiatives. It would also explore whether devaluation influences the level of foreign direct investment in the tourism sector.

Policy and strategic implications: The literature review would consider the policy and strategic implications of currency devaluation for the tourism industry. It would examine how government authorities, tourism boards, and industry stakeholders respond to devaluation and its effects. This would include exploring policy measures, marketing strategies, and financial incentives implemented to mitigate negative impacts or capitalize on positive effects resulting from the devalued currency.

By conducting a literature review on the impact of rupee devaluation on the tourism industry in Sri Lanka, researchers can gain insights from previous studies, identify research gaps, and contribute to the understanding of how currency fluctuations affect tourism in the country. This knowledge can inform policymakers, industry professionals, and researchers in making informed decisions and formulating effective strategies to manage the effects of devaluation on the tourism sector.

3.) methodology

The purpose of this research is identified the impact on tourism industry due to devaluation of rupee in Sri Lanka. In this chapter is describe about the methods and process applied in the research.

Therefore, in this chapter, data analysis methods are used to research the impact of the Sri Lankan rupee on the tourism industry.

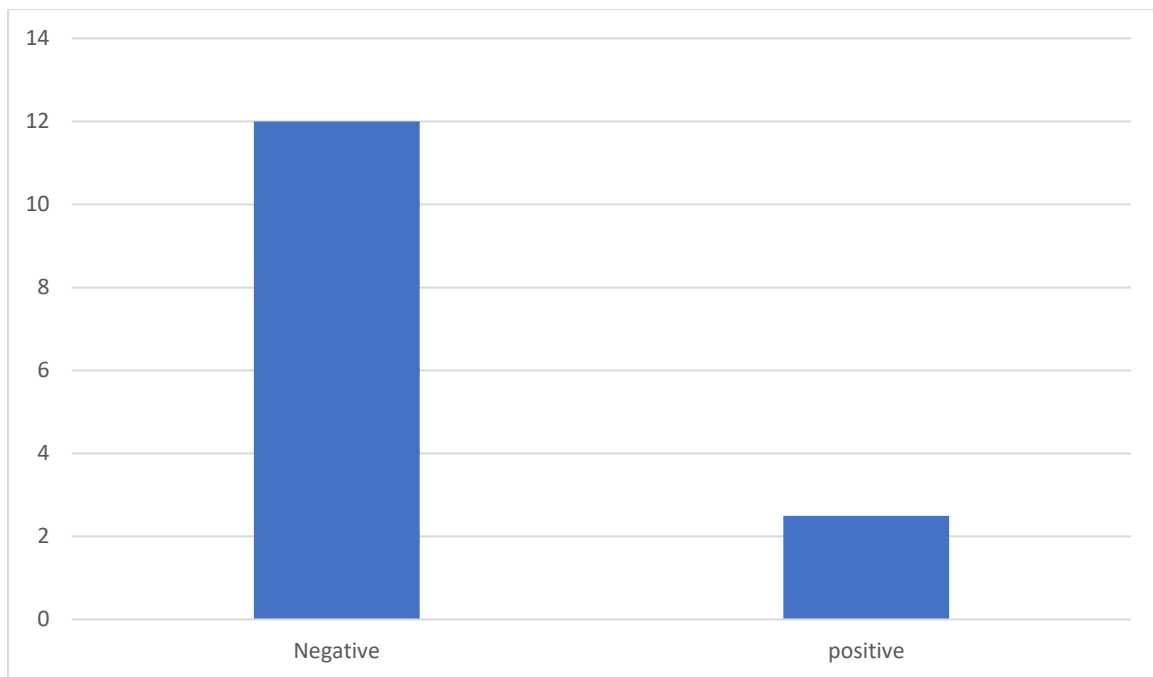
The impact of the devaluation of the Sri Lankan rupee on the tourism industry.

Solutions for that

The government concentrate for them.

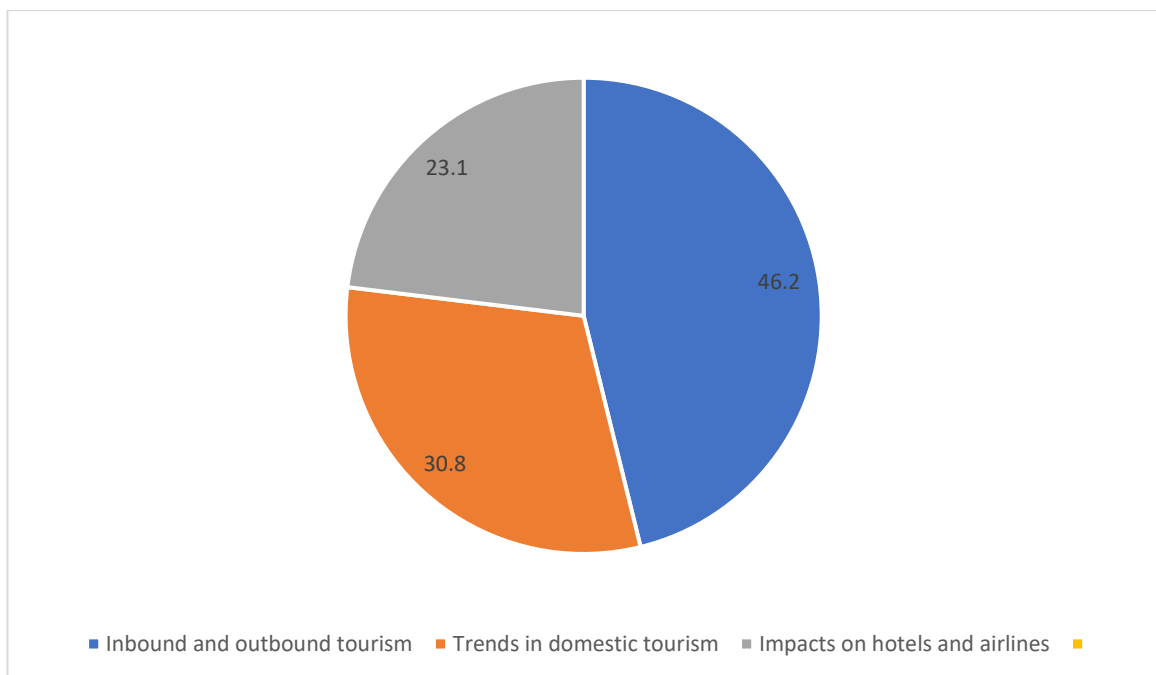
5.Data collection & Data analysis

Impact on tourism due to current widespread

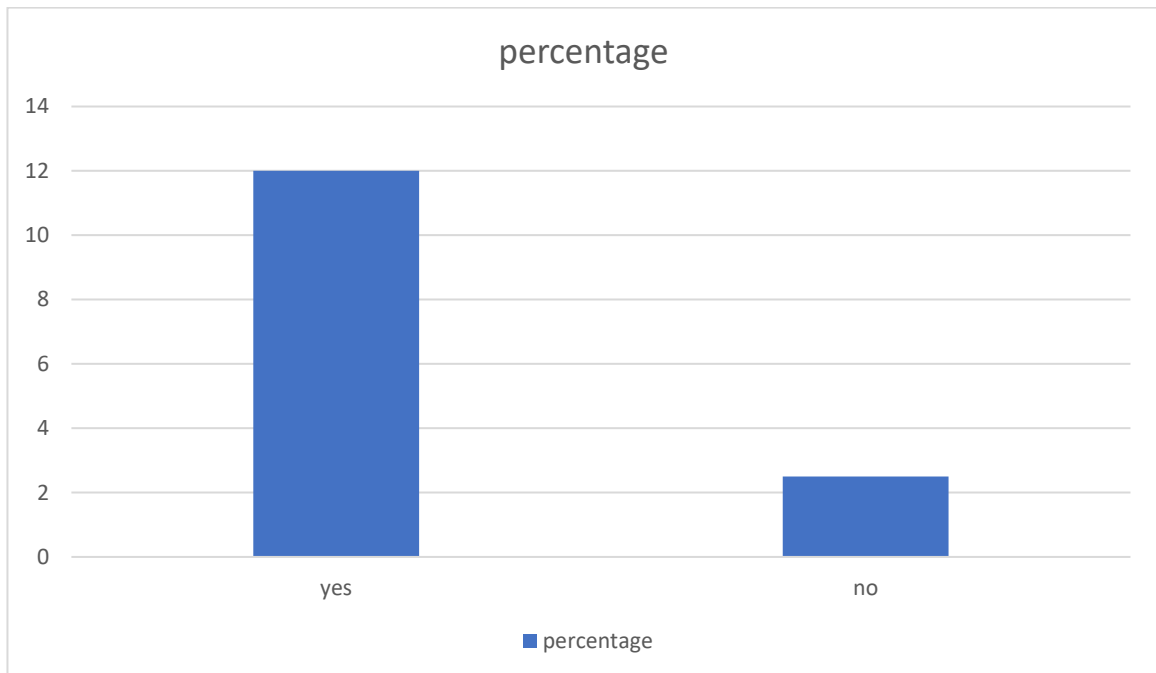


According to the graph, many people says that the impact is mainly negative and few says that there are some positive impacts also.

Which area the major impact activates on



Do you think Sri Lanka's tourism industry has been a key driver of the country?



People opinion about this situation

- i.) Make a most travel point in Sri Lanka.
- ii.) It's not good for country development.
- iii.) The tourism industry should be further developed.
- iv.) The tourism industry in Sri Lanka should be developed. it can stabilize the economic situation of the country to some extent.
- v.) No idea.
- vi.) Make a most travel point in Sri Lanka.
- vii.) Very risky
- viii.) We must improve our tourism.

Sri Lanka's tourism sector has grown day by day as one of the most valuable sectors of the Sri Lankan economy, ensuring a steady stream of income directly and indirectly to the governments of the day to earn foreign exchange. Tourism in Sri Lanka accounts for about 12 percent of the country's GDP and is the third largest source of foreign exchange reserves. The 2019 Easter Sunday bombings started the collapse of this industry. After the double whammy of the Covid-19 pandemic and the Ukraine-Russia conflict amid Sri Lanka's current economic crisis – there is no doubt that revitalizing this sector will be extremely challenging. The country's tourism sector gained prominence in the 1960s with progressive measures to improve Sri Lanka's tourism infrastructure, mostly the

construction of roads, airlines and new hotels. Indeed, the liberalization of the Sri Lankan economy in the late 1970s also secured large-scale investment to boost the tourism industry. However, Sri Lanka's 26 years of civil unrest that ended in 2009, the fallout from the global financial crisis (2007-08) adversely affected the nation and the tourism industry declined. This sector is proving to be one of the leading industries in the wider economic structure.

Tourist arrivals and earnings in Sri Lanka

The tourism sector also contributes to the direct and indirect employment of Sri Lankans, which has been steadily increasing over the past few years until the impact of the Covid pandemic. The total number of jobs provided by this sector in 2019 was approximately 403,000. The current economic downturn as well as the interplay of other external macroeconomic factors will wreak havoc on the country's tourism sector and related channels. Below is the impact on the unemployment situation in Sri Lanka.

Employment generated by Sri Lanka's tourism sector

In 2019, faced with a terrorist incident, 42 of them were foreigners who came to Sri Lanka. Following this incident, Sri Lanka issued travel advisories to foreigners warning their citizens not to travel to Sri Lanka. As a result, tourists left the country in droves, with visitor numbers down 70 percent in May and 60 percent in June compared to the same months last year. In 2018, tourism contributed US\$4.4 billion to the Sri Lankan economy and contributed 5.6 percent of the nation's GDP, but this estimate dropped to 0.8 percent in 2020, the year the COVID-19 pandemic began to spread. The onset of the pandemic led to a 50 percent drop in revenue in 2020, resulting in a drop in tourist numbers, according to Sri Lanka Tourism Development Tourists, tourists from China and European countries, Sri Lanka's biggest market already affected. The tourism sector was hit hard.

Sri Lanka's economy is at its worst since 2022 and the ongoing Russia-Ukraine conflict has further undermined Sri Lanka's tourism sector. Russia and Ukraine, the top and third largest tourist markets this year respectively, have played a crucial role in this domain. Nearly 20,000 tourists from Russia and Ukraine visited Sri Lanka in January 2022, more than a quarter of all visitors. It made up less than 10 percent of tourist arrivals in January 2018. Countries such as Russia, Ukraine, Poland and Belarus account for nearly 30 percent of tourists before 2022, and the conflict threatens to limit the flow of these visitors. Sri Lanka. Official reports reveal that the country took in a significant US\$3.6 billion in tourism revenue in 2019, before a sharp decline to less than a fifth two years later as a result of the economic woes seen in the country. The revival of tourism and the increase of exports has caused a crisis of concern for Sri Lanka.

A steady influx of tourists will no doubt help the battered country recover with foreign exchange woes. However, the consequences of the crisis, with violence and the imposition of

states of emergency, are threatening the tourism industry, which has long proven to be a significant component of a viable economic solution for the country's progress. Photos of long queues of motorcycle taxis at service stations for petrol, a commodity that is in short supply in the country at the moment, are worrying tourists planning to visit the country in the coming months. In addition, the Sri Lankan government imposed a ban on social media giants Metta and Twitter on 3 April 2020 – a move that raised concerns among tourists about the country's future as a holiday destination.

Tourism will play a crucial role in reviving the country's battered economy by attracting foreign exchange earnings and complementing the growth rate in the coming years. While the country is looking for a way out of the economic crisis it is facing, the tourism sector, which has given the Sri Lankan economy much of its glory in the past, will be looking to revive its fortunes.

6. conclusion and recommendations

Conclusion:

Overall, the devaluation of the Sri Lankan rupee has the potential to attract more international tourists and stimulate domestic tourism. However, tourism operators that rely on imports may experience financial challenges due to increased costs. Additionally, the higher costs associated with outbound travel may lead to a decrease in Sri Lankans traveling abroad.

Recommendations:

Promote affordability: Capitalize on the devalued currency by launching marketing campaigns targeting budget-conscious travelers. Highlight the value for money, attractive exchange rates, and unique experiences that Sri Lanka offers.

Support local tourism businesses: Provide assistance and incentives to tourism operators affected by increased costs due to imports. This can help alleviate financial burdens and maintain competitiveness.

Diversify tourism offerings: Develop and promote local attractions and destinations to encourage domestic tourism. This can help offset any potential decline in outbound travel and create new revenue streams for the tourism industry.

Strengthen domestic travel infrastructure: Invest in improving domestic travel infrastructure, such as transportation networks and accommodation facilities. This can enhance the overall experience for both international and domestic tourists, leading to increased visitor satisfaction and longer stays.

Monitor currency fluctuations: Maintain a close watch on currency movements and adopt effective financial management strategies to mitigate the impact of future devaluations. This helps tourism businesses to better prepare and adapt changing economic conditions.

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8. Appendices

Among those hardest hits by the pandemic are economies that depend on tourism

Before COVID-19, travel and tourism had become one of the most important sectors of the world economy, contributing 10 percent of global GDP and more than 320 million jobs worldwide.

When the jet age began in 1950, only 25 million people traveled abroad. By 2019, that number had reached 1.5 billion, and the travel and tourism sector had grown to a too-big-to-fail rate for many economies.

The global pandemic, the first of its scale in a new era of interconnectedness, has put at risk 100 million jobs in micro, small and medium-sized enterprises that employ 54 percent of tourism and a high proportion of women. Labor force according to United Nations World Tourism Organization (UNWTO).

Countries that depend on the tourism industry will feel the negative effects of the crisis much longer than other economies. Connectivity-intensive services key to the travel and tourism sectors have been disproportionately affected by the pandemic and will continue to struggle until people feel safe to travel in large numbers again "We have no way out of this," Caribbean Community (CARICOM) Secretary General R Larocque said at a virtual event in September.

From the white sands of the Caribbean, Seychelles, Mauritius and the Pacific to the back streets of Bangkok, to the national park that was wiped out in April 2018, information is being gained on how to attract visitors again after the new fire spread. Solutions range from inviting people to stay and work nearby for a year while enjoying a tropical scene, to ultrarich attractions quarantined for a year on their yachts.

Worldwide tourism receipts are expected to recover from 2019 to 2023. Tourist arrivals fell by more than 65 percent globally in the first half of this year and have virtually stopped since April - compared with 8 percent and 17 percent during the global financial crisis. In the midst of SARS research in 2003, according to IMF research on tourism in the post-pandemic world.

The October World Economic Outlook forecast that the global economy will contract by 4.4 percent in 2020. The shock to the tourism-dependent economy will only get worse. Among African countries dependent on tourism, GDP will shrink by 12%. Among Caribbean countries that depend on tourism, you have more than 12 items to drop. Pacific island nations like Fiji could see a staggering GDP of 21 in 2020.

The economic hit is not limited to the many countries that rely on tourism. In the US, one out of every six jobs in Hawaii had disappeared by August. In Florida, where tourism accounts for up to 15 percent of state revenue, officials said it could take up to three years to recover the industry.