COVID-19 and Sri Lanka's Economy: Key Trends and Challenges (2020-2023)

Table of Contents

Research Overview

This research examines the economic status of Sri Lanka in the context of COVID-19 pandemic. The focus of the objectives is to enumerate how the disruptions brought about by the pandemic have affected the key economic indicators of the country and also, revealed quite a number of structural weaknesses. The timeline of the research includes years 2020 up to 2023 based on information from the Department of Census and Statistics (DCS), the Central Bank of Sri Lanka, the World Bank and other international bodies' databases.

Objectives of the Study:

1. **Assessing the Impact on Key Economic Indicators:**
   This section of the study explores the extent to which the crisis has affected basic economic variables, including the growth of Gross Domestic Product (GDP), the rate of inflation, total employment, and the national debt. Insights on economic stress, changes in fiscal policy, and disruption of business activities will be obtained by looking at such variables.
   - Among other metrics, these include GDP - current USD, billions, GDP – growth rate – annual %; inflation- GDP deflator- annual %; unemployment- % of labor force; and Revenue's net of grants- % of GDP.
2. **Identifying Structural Vulnerabilities and Dependency Risks:**
   The research aims to expose the weaknesses of Sri Lanka's economic model, which particularly focuses on the country's heavy dependence on foreign income, such as tourism, remittances, and imports. Mapping these dependencies allows this research to pinpoint key components that have prevented recovery and economic strength.
   - Within this framework, the dependence on external sources of finance and the vulnerability to external economic shocks are investigated through the examination of selected indicators such as the volume of personal remittances received (in current USD, billions), the total external debt stocks (in current USD, billions), and total debt service expressed as a percentage of exports.
3. **Evaluating Recovery Strategies and Policy Effectiveness:**
   This study evaluates how different government measures such as import bans, changes in fiscal policy, and restructuring of debt have stabilized the economy nearly. In addition, this study also addresses the effects of such policies on other major sectors such as agriculture, tourism and exports, thus giving a better perspective on policy outcomes.
   - This assessment will be based on several indicators including FDI net inflows (current USD billion), international trade in goods and services (% of GDP), and overall contribution to GDP by all industries (including construction).
4. **Recommendations for Sustainable Economic Growth:**
   In view of the results of the present research, this paper also provides practical advice on how to enhance economic resilience and widen a range of revenue sources for… further sustainable development. These recommendations take into account possible prospects for digital transformation and sustainable agricultural practices that would make Sri Lanka's economy stronger in the long run.
   - The analysis includes the life expectancy at birth; gross secondary school enrollment ratio; the GNI per capita purchasing power parity in current international dollars; and fertility rate, that is, the number of live births per woman for the purpose of identifying the prospects for long term growth and development requirements.

Data Collection and Sources:
The time frame of the data that had been analyzed is includes indicators such as GNI per capita, Total population, Agriculture's contribution to the GDP, and Secondary school enrollment percentages, among others. The objective is to monitor the changes in the economy during the pandemic and present the full range of the economy's evolution, noting both the difficulties and the areas of growth.

Overview of the Economic Landscape of Sri Lanka during the COVID-19 Pandemic

COVID-19 has had debilitating effects not only on all nations in the world but on Sri Lanka and her economy in particular. Sri Lanka is situated in southwestern India, and as such is an island nation that also relies on several industries, including tourism, agriculture, tea and textiles, and garment exports among others. Services offered by these industries and many more were disrupted by the pandemic due to the measures of enforced mobility which included travel bans and global restrictions which crippled the economic transactions.

Whereas there used to be contribution of around 12 percent of the GDP made by the arrivals of tourists, majority of which are foreigners, the tourism sector was particularly inundated when none of the active foreign tourism was possible due to a glaring travel ban. Little by little, the agricultural industry also suffered because of a lack of inputs and import control measures like a temporary stop on chemical fertilizers which reduced the output of crops and raised fears of food scarcity. Lastly, there was also the export sector where demand was not stable owing to other market problems which inflicted more pressure on the already at risk foreign reserves of Sri Lanka leading to high inflation levels.

Population and Demographic Changes

Sri Lanka has a population of around 22 million, a very high rate of literacy, and a very high level of life expectancy. However, due to the pandemic, unemployment and poverty were higher than usual in major urban areas where economic activities were more seriously curtailed. The shift with that demographic dependence on government support increased, resulting in a short-term but significant change in household consumption patterns and resources diverted toward basic needs rather than discretionary spending or investment.

Economic decline and structural strain

The pandemic made Sri Lanka dependent on foreign earnings, especially tourism and remittances sent home by workers employed abroad. Both sectors suffered losses unprecedented in history. Foreign reserves, already depleting, suddenly began to evaporate. As Sri Lanka struggled to meet its debt repayments, it fell into a fiscal crisis with a fast-growing debt-to-GDP ratio. In trying to handle the immediate balance-of-payments crisis, the government restricted importing goods—a decision that immediately triggered general shortages in basic commodities and a strong increase in inflation.

Government Response and Fiscal Policy Adjustments

As a reaction to the economic pressure brought about by COVID-19, the government of Sri Lanka undertook a number of fiscal policies to protect local industries and manage inflation. Funds from external sources such as Emergency Assistance from the IMF and the World Bank, were obtained to mitigate funding constraints on prevailing obligations. Furthermore, the state put in place additional local initiatives including, tax reforms which aimed at increasing investment and consumption as well as payment restructuring to reduce the repayment burden of the government. Some measures were also taken to protect certain classes of industries by providing them with certain subsidies or financial relief packages.

However, inflation is high owing to other factors such as supply changes distortions and also the increased cost of imports. There have also been problems in sustaining the growth targets owing to inadequate foreign exchange reserves, a depreciating local currency, and the pressure of paying debts. Hence, even though the government wants to achieve these goals, it is also faced with challenges of promoting sustained economic growth due to its stance on stability and adopting more fiscal policy measures and rescheduling of debts.

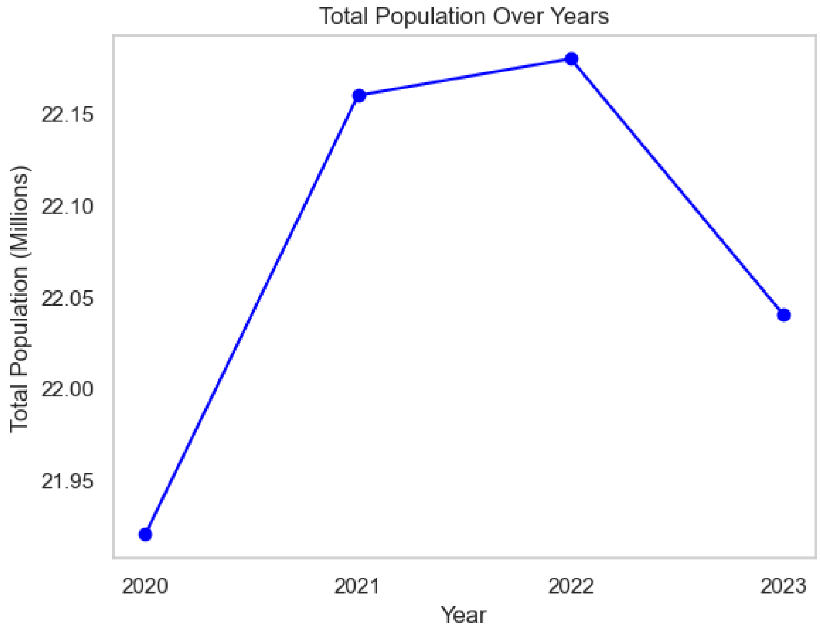
Impact on Key Economic Sectors

1. **Tourism**
   Tourism used to be one of the most important sectors in the economy of Sri Lanka, contributing to almost 12 percent of the GDP and employing a large section of the population. However, in the wake of the COVID-19 pandemic, international visitor arrivals plummeted to by more than 90%, and this sector suffered great revenue losses. There has been some recovery as the travel restrictions have been somewhat eased, but the sector is still susceptible to continuing risks in the form of changing global travel patterns, illnesses, and countries' internal politics. To date, in 2023 the sector, and tourism in particular, has not returned to the levels it is used to prior to the pandemic. Therefore, the effect on employment and revenue in the economy is considerable.
2. **Agriculture**
   In Sri Lanka, agriculture, which accounts for nearly a quarter of its labor force, experienced unprecedented shocks on account of supply chain constraints and policy changes. The impetus of promoting organic agriculture resulted in the temporary banning of chemical fertilizers in the year 2021. This made the output of crops decline drastically. The decline in yields, however, turned the attention on food security and elevated the food prices, as the inflation of food items peaked to a level of nearly 30 percent. In particular, the output of rice and vegetables was severely affected, thus the government lifted the ban on fertilizers at the end of 2022. Nonetheless, the re-introduction of the policy was not sufficient to bring back the levels of productivity, and the sector is still facing challenges of high input prices and supply chains disruptions.
3. **Exports and Imports**
   With the pandemic-induced shifts in global demand, Sri Lanka's export sector, especially textiles and tea, has faced ups and downs. Even though in expeditions decreased at first, there was a slight upturn as the demand for Sri Lankan textiles began to grow, especially in the U.S., and Europe. However, this posed a threat since the country relied heavily on the importation of raw materials. Foreign exchange management's import controls imposed by the authorities have also caused scarcities of vital goods and materials. This sparked considerable inflationary trends, as consumer prices soared above 70% during the mid-2022 period, then slowly came down. Restrictions on imports also impaired the country's industrial performance as several manufacturers could not get the parts they needed.

Population Growth after Pandemic

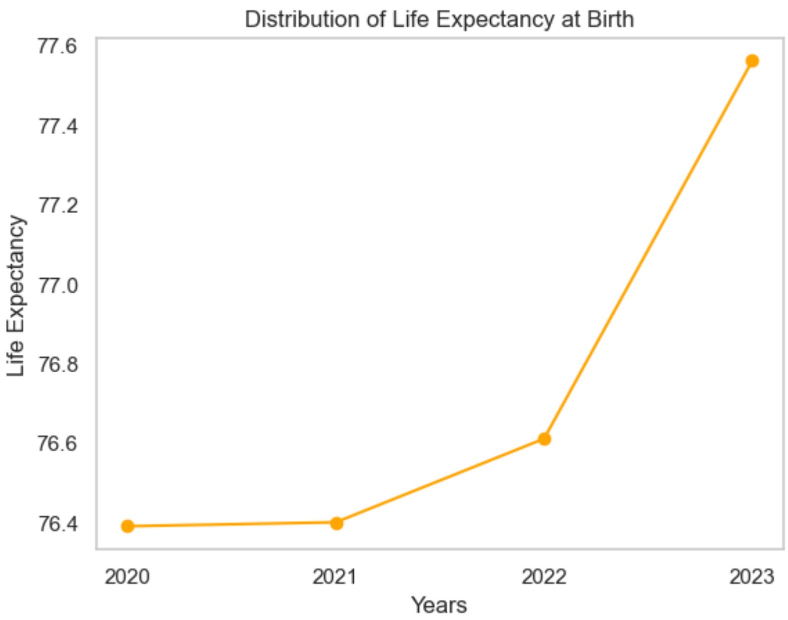
By the time the COVID-19 Virus hit in 2020, Sri Lanka had an estimated population of over 21.9 million. Due to concerns about a heightened mortality rate being one of many results of the virus, the pandemic did not have the harshest impact on the population, which continued to grow through 2022 to approximately 22.1 million.

However, in 2023, another challenge faced the country in the form of a severe economic crisis. The population has fallen slightly, this time not due to health issues, but the primary cause is emigration for greener pastures in terms of employment. Because of inflated economies, loss of purchasing power, and increased unemployment, more of the working population opted to look elsewhere for opportunities; hence, a "brain drain" of skilled and unskilled labor has occurred in Sri Lanka.



This economical shift in population affects not only the availability of labor but also creates a long-term obstacle to economic recovery and development within the country.

Life Expectancy at Birth

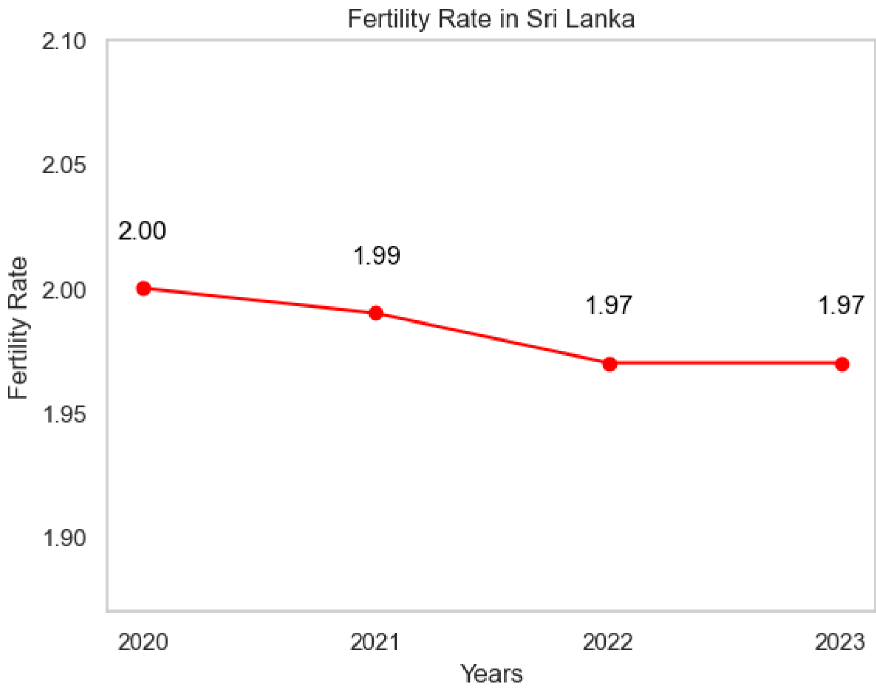


While the pandemic did not hinder population growth, research evidence shows that life expectancy at birth has equally been on an upward trajectory among Sri Lankans. In 2020, it was recorded at 76.3 years, increasing to about 77.5 years by the end of the pandemic.

Another contributing factor towards this has been the difference in lifestyle and dietary habits. People relied more on homegrown vegetables with lockdowns and restrictions in place, and homemade meals probably enhanced overall health by reducing fast food and processed food intakes. This dietary shift most likely led to health improvement because meals were usually fresher and less exposed to the different artificial preservatives and additives commonly contained in fast foods. In addition, increased awareness of health and hygiene, together with family time spent at home, would have reduced tension and thereby improved mental well-being.

Fertility Rate (Births per Woman)

By far, research and analysis reveal that even with the pandemic, the population and life expectancy of Sri Lankans continued to increase due to several factors, namely improvements in health awareness, better access to health care service, and diet-related changes surfaced during lockdowns. Encouraged to stay home, people shifted to more vegetables grown in homes and meals prepared at home; this helped towards better general health and nutrition. Shifting away from the use of processed foods and fast food maybe could have influenced increasing their resilience as its result can be seen by increasing life expectancy from 76.3 years in 2020 to 77.5 years at the end of pandemic.



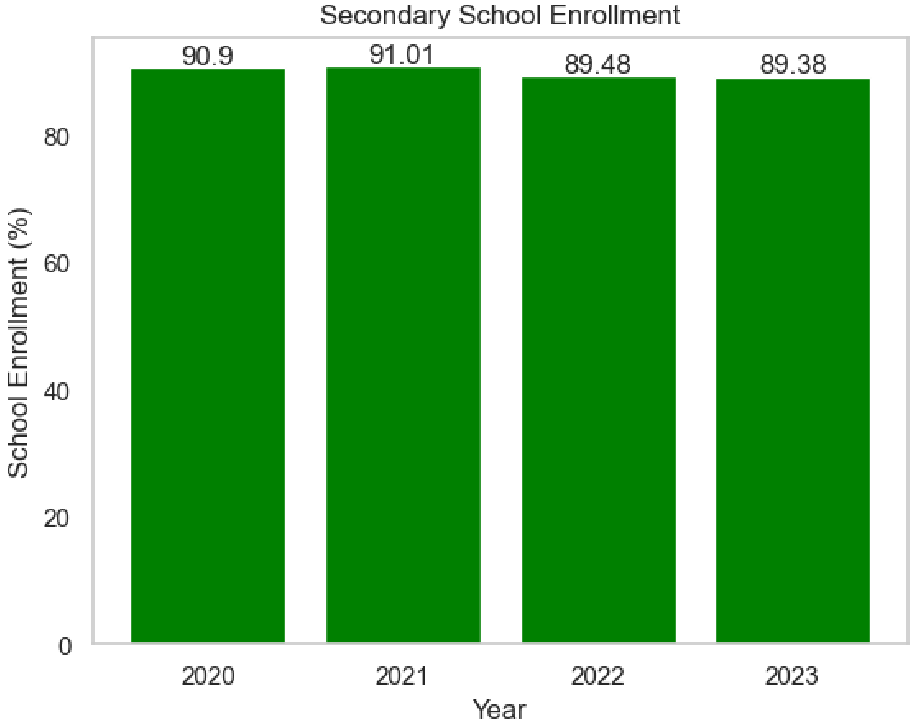
On the other hand, there was a contrastive change in the fertility rate, which is the average number of births per woman. The fertility rate of Sri Lanka was at a level of 2 births per woman in 2020. This may indicate that the women have a rather stable reproductive pattern. In 2023, the fertility rate went down to 1.97, reflecting a slight decrease in the average number of children each woman had. This reduction can be traced to a number of factors. The other COVID-19-related factors include economic challenges that, during and even after the pandemic, make families reconsider their financial preparedness for children. Also, disruption to health and family planning services during the pandemic can make women make different reproductive choices regarding access to contraception. In addition, uncertainty over employment and income prospects can influence decisions by couples to delay or limit family expansion.

Though moderate, this fall in the fertility rate does assume significance because it reflects changes wrought in society by the pandemic. This trend perhaps signals a reevaluation of family size and childbearing decisions influenced by the burdens associated with these times. Such knowledge is of use to the policymakers as well as the researcher, since these developments will have strong implications for the future demographic scenario in Sri Lanka.

Secondary School Enrollment Percentage

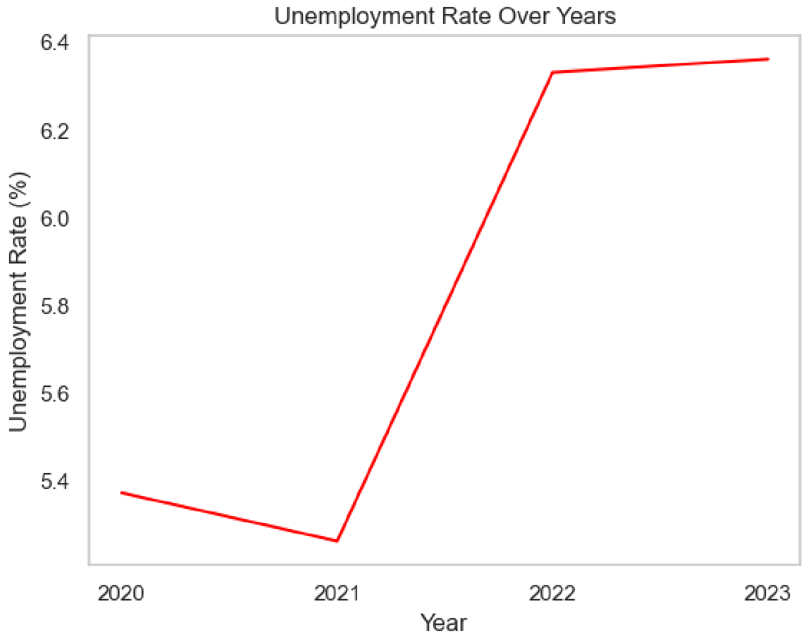
Sri Lanka has the largest amount of literacy, and this serves as a very important measure in terms of educational attainment and development. The percentage gross enrollment ratio presenting data on secondary school enrollment signifies this educational achievement. In the year 2020, the country recorded 90.9% enrollment at the secondary level, which means that almost 91 students out of every 100 eligible students were enrolled in secondary education. That shows the commitment of the country toward the education of the youth, which is very crucial in developing a knowledgeable and skilled workforce.

However, it slowed down slightly in the succeeding years. By 2021, it edged up to 91.01% because of modest increases in access to education and improvement in educational infrastructure. However, in 2022 and 2023, enrollment rates decreased to 89.48% and 89.38%, respectively. Lowering this indicator may be indicative of some hidden problems, such as economic constraints, reduced government funding for schools, or shifting demographic trends.



These figures have raised apprehension regarding the potential impacts that enrollment dips in these years could have on educational equity and the long-term implications for the nation's workforce. Even with the high overall literacy rate, secondary school enrollment needs to be maintained and improved in order to ensure all children complete their education. It will be crucial to address such factors that have led to this decline for Sri Lanka to retain the status of being an education-oriented country and bright future for its children and youngsters.

Unemployment Rate



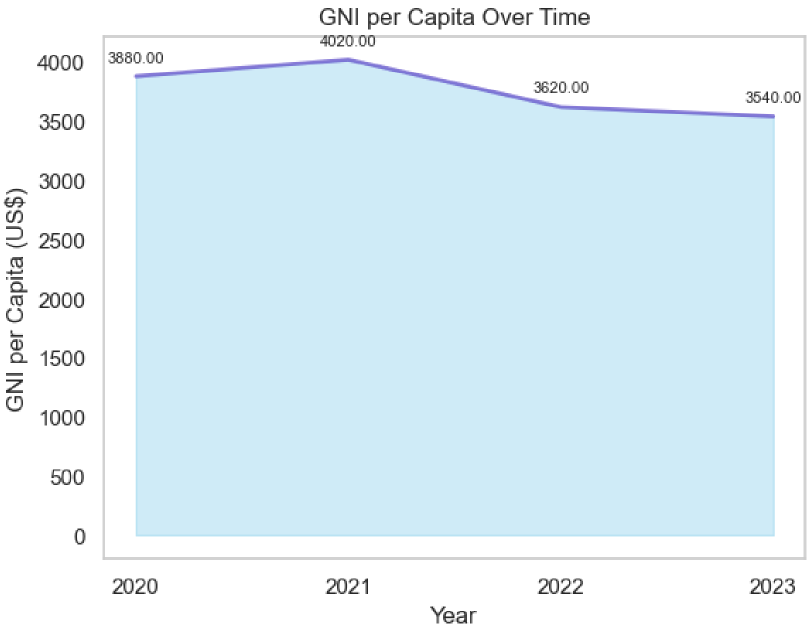
The patterns of unemployment in Sri Lanka enhance the understanding of the economic effects of the COVID-19 pandemic. The unemployment rate, which refers to the dichotomy between the economically active population and those individuals who are looking for jobs, but can't find one, reached 5.37 percent in 2020 following the restrictions and contractions of tourism and retail among other sectors. Lockdowns and restricted business operations resulted in job eliminations en masse, with the informal economy being most distressed due to high job insecurity and lack of benefits.

In 2021, the unemployment rate decreased to 5.26%, indicating the stabilization of industries to an extent in which they adapted and resumed operations in some sectors. However, this was not a trend that was maintained. For example, in the year 2022 the unemployment rate grew even further at 6.33% owing to factors such as increased inflation, depletion of foreign reserves, and restrictions on imports, which caused a halt on the production activities of those industries that rely on raw materials sourced from overseas factories. This necessitated more layoffs and highlighted a widening gap between the skill sets of the existing employment or workforce and the skill requirements of new positions that emerged due to economic changes wherein some jobs were eliminated.

At 6.36%, the unemployment rate was quite high as of 2023, reflecting ongoing turbulence within the labor market. This was exacerbated by persistent inflation, slow job growth, and lack of trust from investors. Unemployment among the youth was strikingly higher, as young people struggled to find stability in employment. There was a reduction in the proportion of women in the workforce as well, as many women lacked access to jobs with flexible working hours due to the need to look after children. Additionally, restricting incomes while inflation rose further drove people to look for other places to earn or work even with secondary employment where there are no such jobs in the economy.

This persistent rise in unemployment illustrates the structural weaknesses in the economy of Sri Lanka that is worsened by dependence on industries such as tourism and export. These isotropic actions aimed at overcoming identified problems should include targeted reforms and skills training together with job creation initiatives as a way of restoring east's labor market equilibrium. These will however be necessary in ensuring that the country is able recover from the challenges, is able withstand them, and eventually, sustain economic development in the country.

GNI per Capita Growth



Expenditure per member of a nation, in other words, who resides within that country, GNI per capita is a statistically significant determinant of economic situation since it relates to the residents of a given country in respect to their average incomes. This makes it possible to gauge the portrait of the economic health of a given country on an individual level, and comparisons of measures of economic welfare among countries can be made. Back to Sri Lanka, the GNI per capita demonstrated a zig-zag trend between the years of 2020 and 2023 since the country faced the adverse economic effects of the pandemic and later on other issues as well.

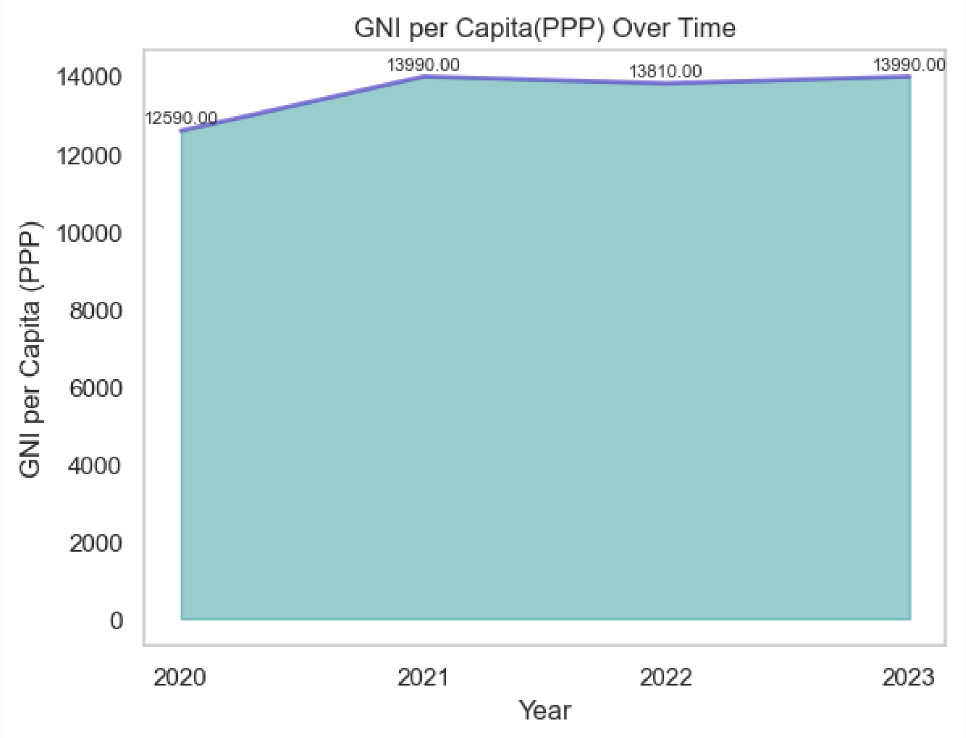
The GNI per capita for 2020 was $38 hundred eighty, which is the year that COVID-19 began its global spread. The value for this year bore the brunt of all income levels as a result of stringent lockdowns, lessened business engagements, and radiant decline in tourism, exports and other sectors. However, in spite of such difficulties, the GNI per capita curiously rose slightly higher in the year 2021. The rise in GNI per capita during this period can be explained by the fact that economic recovery processes began, since most business and sectors had started functioning even though there were restrictions due to the pandemic. As the resurgence of economic activity began, this upturn was not sustained for long as a result of the dismal economic conditions that Sri Lanka was experiencing.

GNI in 2022 plummeted substantially to $3620 mainly due to the aggravated economic crisis. There were increases in inflation rates and currency depreciation; hence, drawing back the purchasing power and causing a decline in the average income levels. There were also import bans imposed coupled with the increasing costs of basic commodities which put more pressure on the households reducing the GNI(C) per capita. The GNI per capita even dropped further in 2023 to 3.540 us dollars as the economy was still in turmoil characterized by rampant inflation and low levels of productive engagement. This decline was worsened by a fall in global investments, pressure on domestic sectors, and higher living expenses, which all curtailed income expansion.

The reduction in GNI per capita over those years can be attributed to the adverse effects of external shocks such as global recessions as well as internal issues like budgetary problems and policy constraints. The persistent decrease in GNI per capita demonstrates the challenges faced in building economic stability, especially since average incomes have a direct bearing on living standards, savings rates, and the health of the economy in general. To overcome the problems mentioned, it will be important to implement and undertake more wide-ranging changes in the economy of Sri Lanka, such as stabilizing the national currency and promoting means of earning a living to improve the economic situation of that country's people and ensure economic grow.

International GNI per Capita (PPP)

Often referred to by its abbreviated form as PPP, GNI per capita measured with GNI PPP is arguably the most important statistic for diagnosis of the state of the country's economy, as it indicates the amount of income reached in the domestic economy. For Sri Lanka we can analyze the evolution of GNI per capita in PPP adjusted terms between the years 2020 and 2023 showing quite a lot of both the strength and weaknesses of the economy. In 2020, amidst the chaos brought about the global community by COVID-19, the island nation of Sri Lanka reported a GNI per capita PPP value of $12,590 portraying that regardless of external or internal difficulties, individuals' purchasing ability had not shaken up entirely.

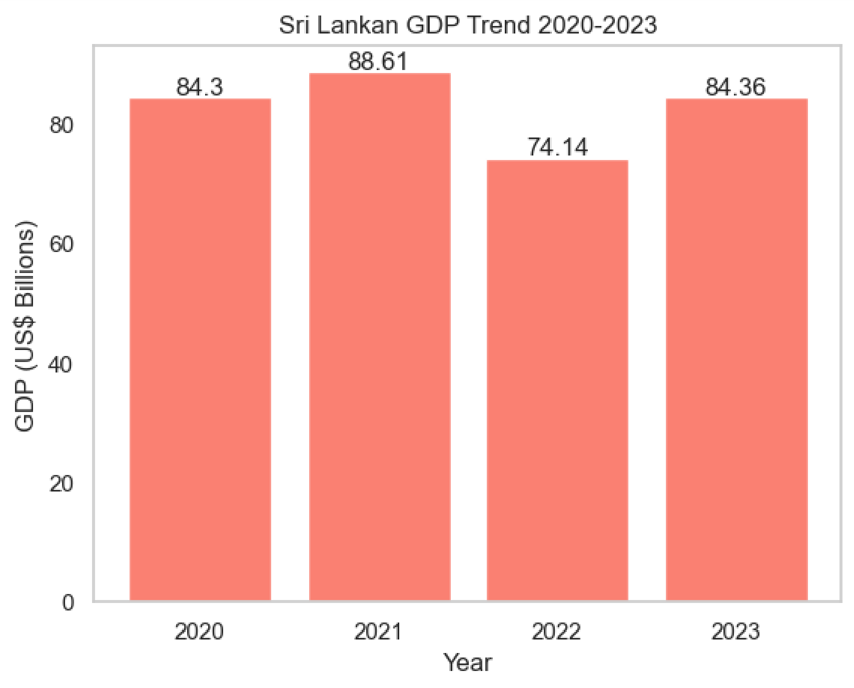


In the following year, the GNI per capita experienced a significant jump to $13,990, which remarkably accentuates the growth that was witnessed during the periods of global recovery. The rise indicates that some of the sectors within Sri Lanka's economy were able to preserve or increase their capacity to generate income, showing that there was presence of growing resilience to both global and local pressures. Nevertheless, this uptrend in GNI per capita receipts based on PPP was not a success as from 2022 onwards the economy also started to decline where it recorded a GNI per capita PPP of $13,810 due to high inflation and depreciation of the currency that crippled a lot of households.

The drop in Georgia's GNI per capita indicated the negative impact of the economic decline and the residual effects of the pandemic on the people's welfare in the year 2022. Increased prices of basic commodities stretched further the household budgets, showing how many Sri Lankans have struggled to keep up with their way of living. As the economy suffered, particularly for the poor, many members of the society experienced challenges adapting to a situation where costs of goods and services necessary for survival were on the upsurge, creating further marginalization.

In 2023, a change in the index could be noted since GNI per capita at PPP even went up to $ 13990. This indicates that there is a likelihood of stability or even growth. This growth may be due to measures taken by the government aimed at achieving a decreasing inflation rate and increasing control over the economy. The reasons for the voracity of GNI per capita growth oscillation point to some global factors in effect and domestic strategies in place. There is also a call for further structural transformation. For example, the internal regional economic issues will be very important to the economic development of the country henceforward if the economy is to grow and so as the living standards of the society in the state of Sri Lanka.

Trends in Sri Lankan GDP During the Pandemic



Gross Domestic Product (GDP) is a central concept in economics and is defined as the sum total of the market value of all goods and services produced in a given nation in a given time period. Looking into Sri Lanka's GDP data for the period of 2020 to 2023 reveals the extent of economic volatility the country underwent during and in the years after the COVID-19 pandemic. The GDP of Sri Lanka in the year 2020 was about $ 84.3 billion as recorded at the beginning of that year's pandemic which greatly impacted the country most notably the tourism, manufacturing, and agricultural sectors which are the pillars of the economy.

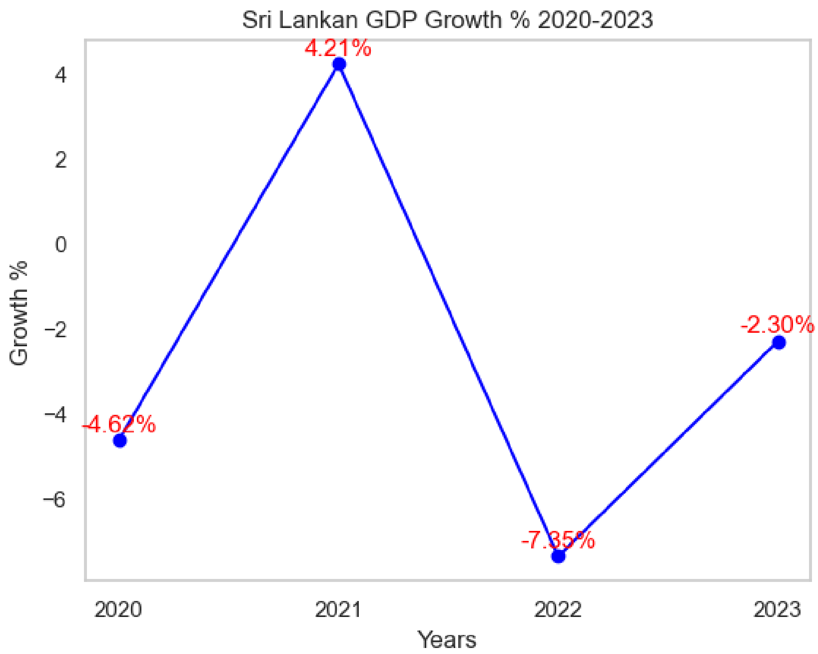
In 2021, with the pandemic still around, the GDP expanded by an approximate value of $88.61 billion. This slight upturn is due to the partial opening up of the economy and a range of measures to boost business activity. Yet the recovery was not uniform, most sectors were still under some form of restrictions and advertising spending from consumers was very low. The scenarios worsened in the year 2022, when the GDP plummeted to about $74.14 billion. This was exacerbated by the combination of other issues like inflation, lack of foreign exchange, and increasing levels of foreign debt, this illustrated clearly the dilemma in which Sri Lanka found itself during COVID-19 as well as the unfair global economic suppression.

The GDP in Sri Lanka as of 2023 has recovered to around $84.36 billion suggesting that the economy is on an ascertained path to stabilization. This recovery is indicative that the government has perhaps started resolving the issues standing in its way. The trends in GDP between the years 2020 and 2023 portray the hardiness and the Achilles' heel of the Sri Lankan economy during the tumultuous global upheavals.

Admiringly though, the patterns in the nation's GDP portray why there is a great need for emphasizing on sustainable growth strategies in the near future. It will be very vital towards improving the economic outlook of the country and the quality of living of its people that it is able to maintain stability and resilience against any future economic shocks.

Annual Percentage Growth of Sri Lankan GDP

The annual percentage change in Gross Domestic Product of a country is one of the most important factors to consider when analyzing the economy of that particular country. It indicates how the economy has either expanded or retracted over a specified period. In case of Sri Lankan economy, when one looks at the GDP growth rates during the period between 2020 and 2023 it is unusual to note such largely varying growth rates this can only be explained by the pandemic and its aftermath shock that the country experienced.

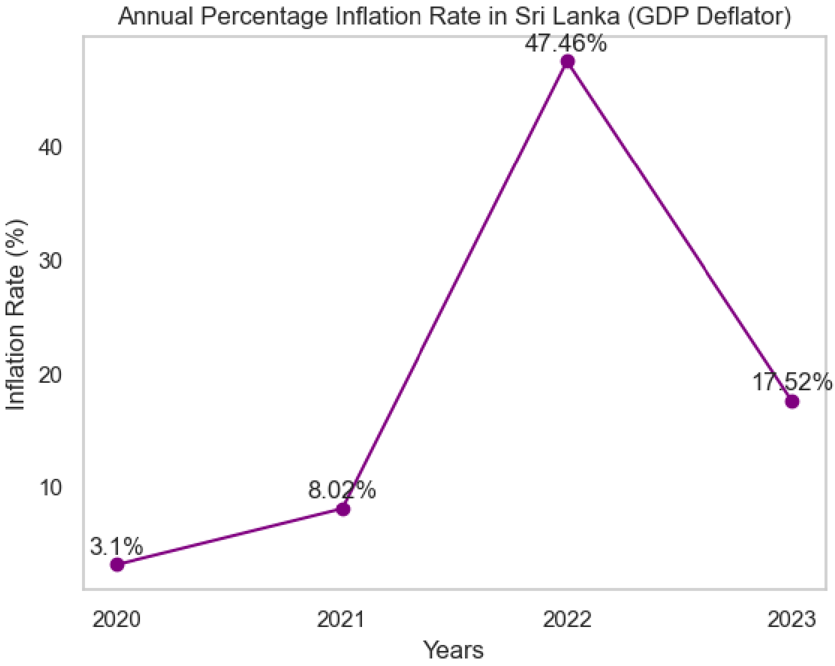


The GDP growth within Sri Lanka reduced sharply to a decline of -4.62% within the year 2020. This was mainly due to the pandemic as it brought almost all economic activities to a standstill that reduced production, consumer expenditure as well as caused widespread interruption in many sectors including tourism and export markets. Regardless, the economy of the nation in the year 2021 advanced 4.21%, perhaps owing to the lifting of some of the lockdowns, restoring consumer faith and an upturn in tourism trends after some curbs were lifted.

This however did not last for long as in 2022 the GDP growth rate fell back to a – 7.35% GDP growth rate. This economic decline can be associated to higher inflation rates, fuel scarcity, economic mismanagement in addition to the lingering impacts of the Covid-19 pandemic. External and internal constraints or problems did together confound the effective workings of the economy and sustainable development.

In the year 2023 Sri Lanka registered a GDP which was below the previous year's level by 2.3% confirming that the nation was still struggling hard to bring its economy back to normalcy. Even deeper improvements in economic activities are indicative of the great challenge of retrieving the output levels that existed before disease outbreak, and emphasizes the need for radical change as well as practical steps to address the root power of such growth. None of these percentage growth figures per annum are good news for the Sri Lankan economy, as only with collective efforts can they provide protection against any further shocks to development in future.

Annual Percentage Inflation Rate in Sri Lanka (GDP Deflator)



Inflation in Sri Lanka refers to an indication of the fluctuation in the price levels of commodities and services from the year 2020 to 2023. In the year 2020, the rate was 3.1%, revealing a stable economy with inflation within manageable bounds. This was the case for a very short period of time as it strongly leaped towards 8.02% in the year 2021 due to the disruption in the supply chain and surge in demand following the gradual reopening of the economy post-COVID-19 lockdowns.

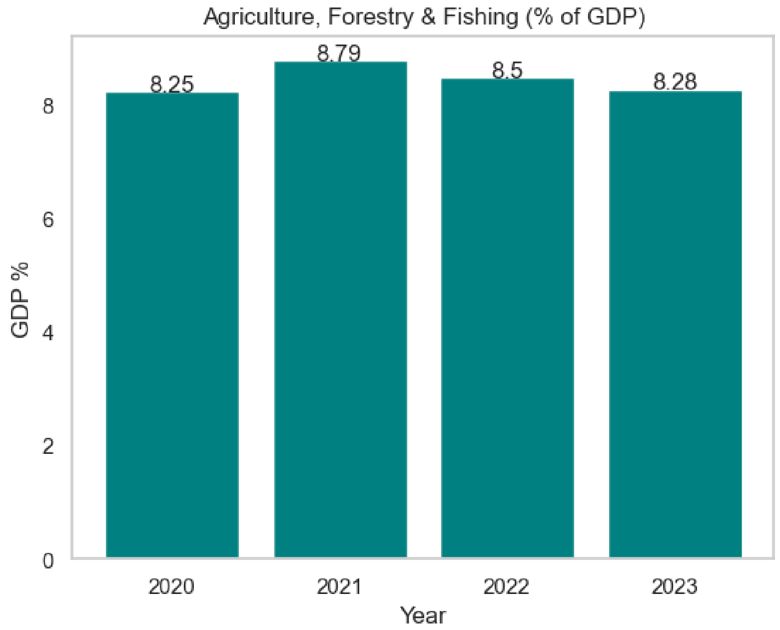
The most alarming increase occurred in the year 2022, with a record increase in the inflation rate to 47.46%. This happened due to the combined effect of economic instability among consumers, external shocks, and strong policy changes that saw prices shoot up, especially of basic needs such as rice, sugar, and fuel. A hike in the cost of living continued to put pressure on many households, where families fell into economic distress and further created vulnerabilities within the population.

During 2023, inflation showed some moderation, slowing down to 17.52%. Still high from a pre-pandemic perspective, the rate has considerably improved. The high sustenance of inflation adds to uncertainty in the economy, with consumers altering their spending habit and firms readjusting their investment decisions. Thus, while consumer spending is turning discretionary due to sustained price increases, businesses, especially in the retail and hospitality industry, are facing conditions that make them unsustainable. Moreover, the increased cost of production would also compel firms to hike their prices further, thereby fueling inflation.

High inflation thus affects the poor and middle-class households that spend a larger proportion of their incomes on basic goods. They would find it increasingly hard to maintain a decent standard of living as prices of goods kept rising continuously with reduced saving and a heightened risk of slipping below the poverty line. This may prompt the government to adopt tight monetary policies through the increase of interest rates with the aim of curbing inflation, and such efforts may stall economic growth as well as investment in key sectors. In this perspective, prudent management of inflationary tendencies is an integral component of maintaining economic stability while ensuring that vulnerable groups are cushioned from the detrimental impact of rising prices.

Economic Composition and Performance Indicators in Sri Lanka (2020-2023)

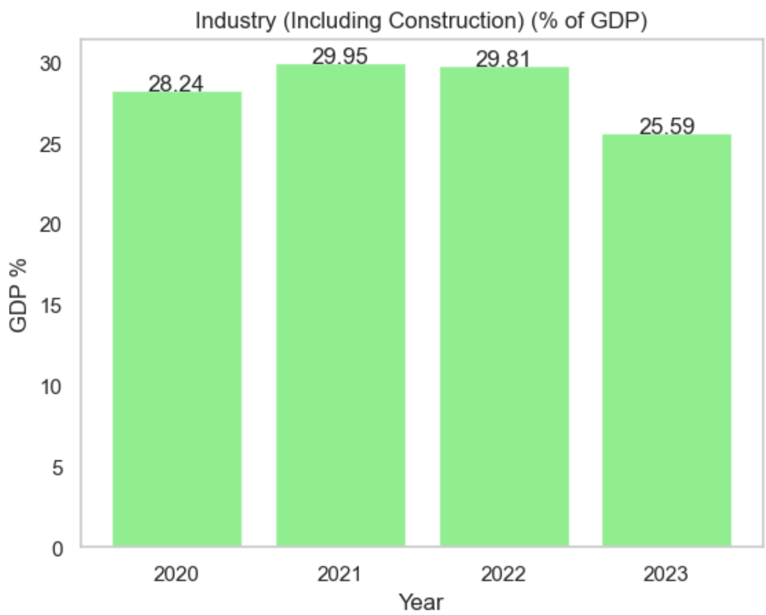
Agriculture, Forestry & Fishing (% of GDP)



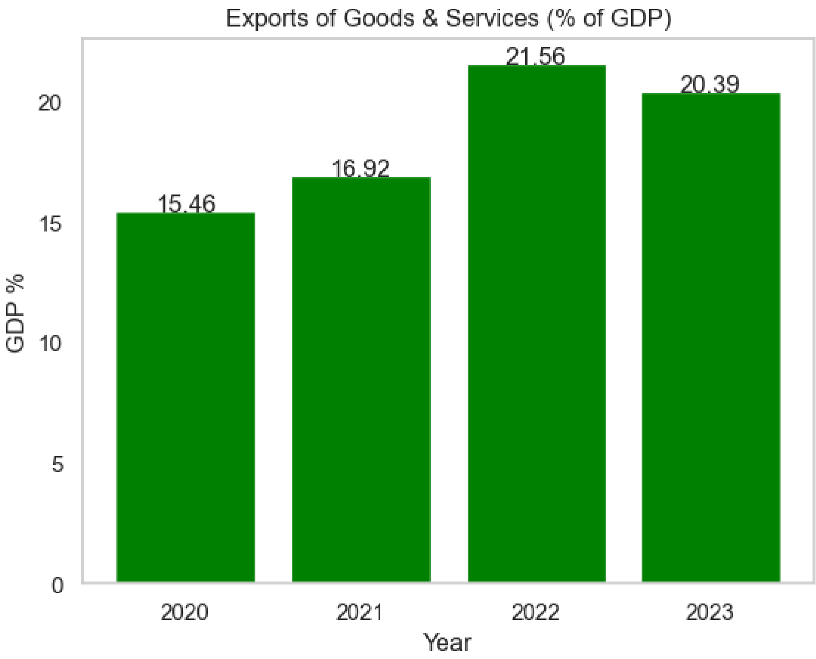
The contribution of agricultural, forestry, and fishing activities to the GDP of Sri Lanka has been experiencing some minor variations over the years. Specifically, in 2020, this figure stood at 8.25%, while in 2021, it increased to 8.79%, before a slight decline to 8.5% in 2022 and 8.28% in 2023. This sector is still a very important part of the economy of Sri Lanka due to the fact that such activity engages a big population of people, most of who are in the rural areas. This is considered to be one of the most important sectors for ensuring food security and rural development. It is one of the most at-risk sectors from climate changes, natural calamities and global markets, which in turn impacts the farmers and fisher folks.

Industry (Including Construction) (% of GDP)

The industrial sector, which comprises both manufacturing and construction, accounted for 28.24% of GDP in the year 2020 and increased by 29.95% in the year 2021. This grew slightly, to 29.81% in 2022, and to 25.59% quite dramatically in 2023. Such patterns might be indicative of some economic challenges: rising costs of production and rather insufficient demand by consumers. The industrial sector is also very important as far as job creation and economic development are concerned, implying in effect the general state of the economy. Segment trends in this sector are significant and assist in informing the general health of the national economy as well as appropriate interventions in policy.



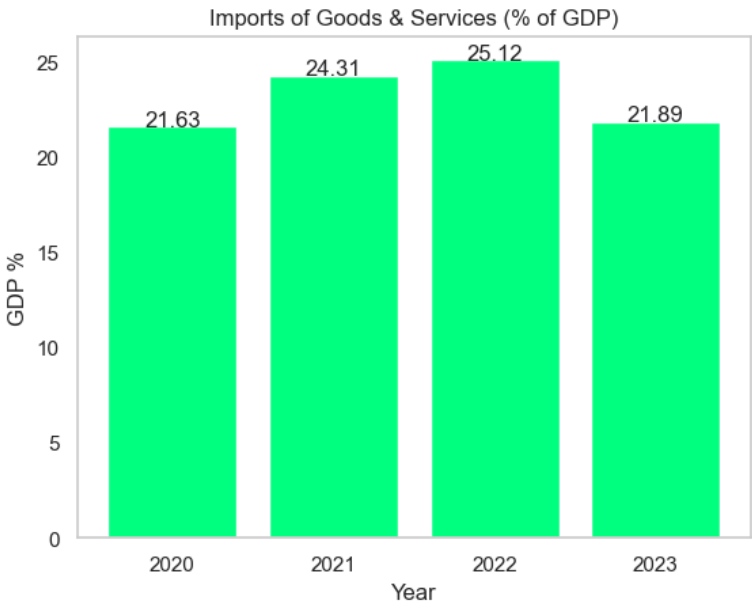
Exports of Goods & Services (% of GDP)



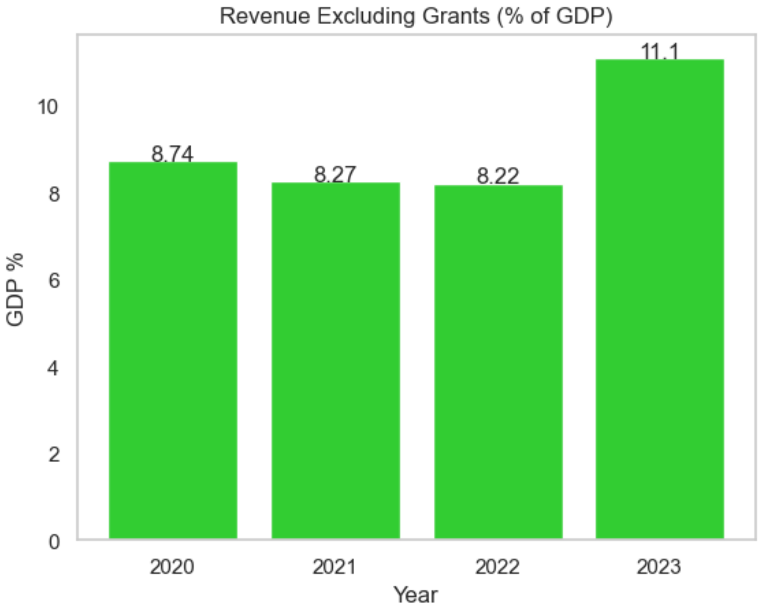
Goods and services exports in the year 2020 contributed approximately 15.46% of the Gross Domestic Product which grew further reaching 16.92% in the year 2021. Still on the move, it reached its highest at 21.56% in 2022 after which it slightly dropped to 20.39 % in the year 2023. Characteristically, the growth in exports in an increasing percent ratio signified a better standing in the global arena, driven by integrating sectors particularly the textile and tea industry. Such fluctuations may indicate botanical product ire's changes in demand and trade deterrence activities. A buoyant export capacity is seen as one that is capable of generating foreign exchange earnings, contributing towards the overall economic development penetrates the national markets of countries.

Imports of Goods & Services (% of GDP)

When contrasted with the total imports of goods and services, in 2020 it was 21.63%, in 2021 it rose up to 24.31%, while in the year 2022 it totaled 25.12%. In 2023, however it has started to decline to 21.89%. Generally, an upward trend in the percentage of imports may suggest the higher demand for the country's products and looking for other finishes components to its industries. On the contrary, in case the percentage of importation is more than that of exportation, there is a likelihood of trade balance that can affect the foreign reserves and the viability of the country's currency. Balanced trade is a fundamental measure that has to be considered if health and sustainability of an economic system is to be assessed.

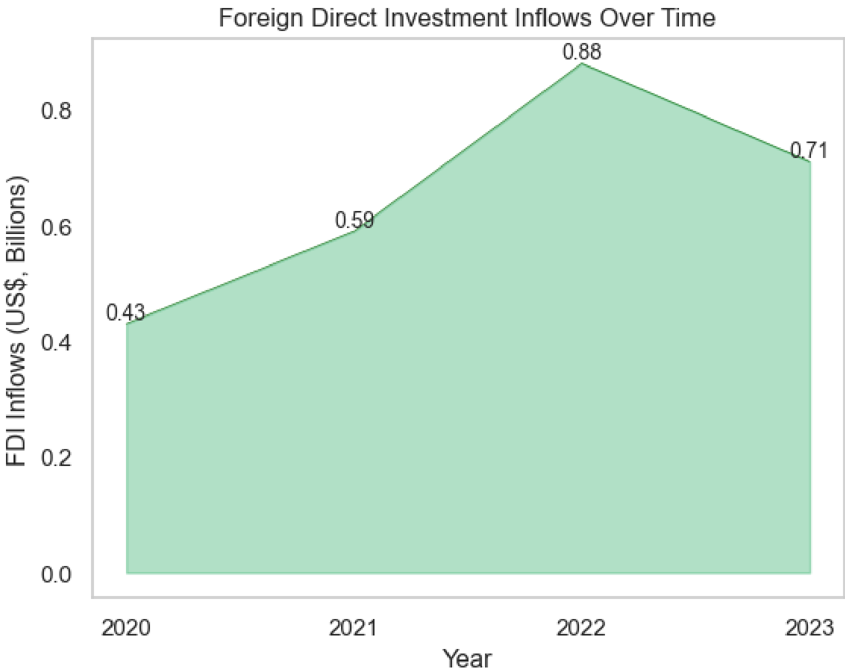


Revenue Excluding Grants (% of GDP)



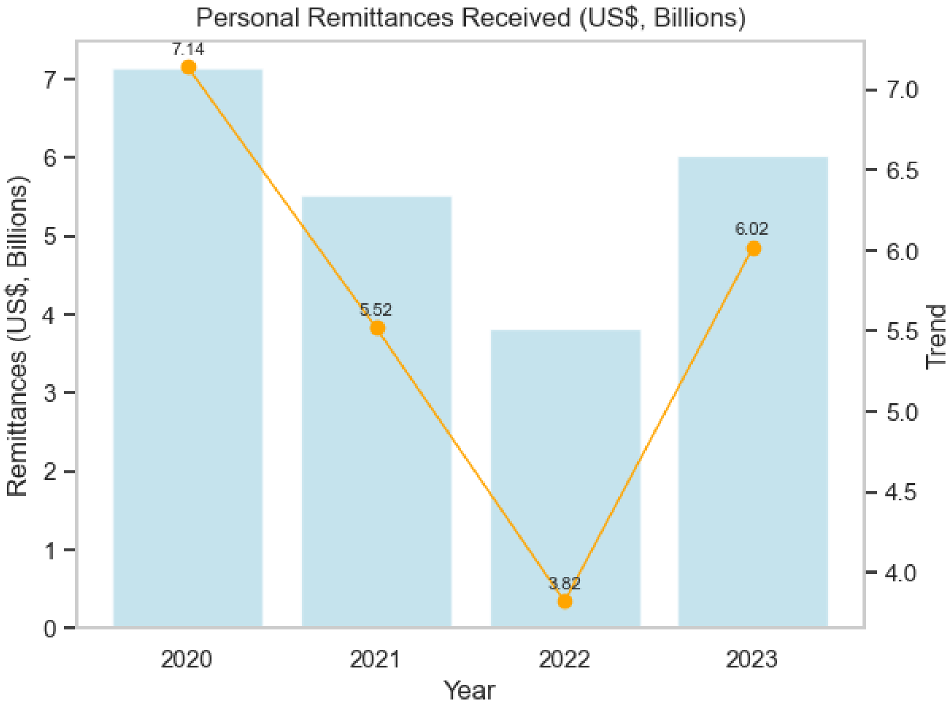
Without taking into consideration grants, the figure decreased from 8.74% in 2020 to 8.27% in the year 2021 then to 8.22% in the year 2022 before increasing to 11.1% in the year 2023. What this shows is that the government is making extra efforts in enhancing its domestic revenue collection, which is very important for supporting the provision of public goods and building infrastructure. A sounder revenue base makes for fiscal sustainability and less dependence on foreign assistance. Trends in revenue collection indicate not only quality of government performance but also its efficiency in the public undertaking.

Foreign Direct Investment Inflows (2020-2023)



Sri Lankan economy can be analyzed in terms of evaluating the macroeconomic indicators of the country. In Sri Lanka, $0.43 billion was the FDI inflow in 2020. However, it has made strides in terms of foreign direct investment and increased inflows of FDI were respectively $0.59 billion in 2021 and $0.88 billion in 2022, only to decline sharply and record FDI of $0.71 billion in 2023. Among various factors contributing to economic development, – capital infusion, expertise and technology – Foreign Direct Investment (FDI) is crucial. Such lows and highs in FDI could be a reflection of the investor sentiment towards the economy of Sri Lanka and its potential growth possibilities. Sustained inflow of FDI is what is deemed necessary to improve efficiency and productivity, increase employment opportunities and develop new ideas in the economy.

Personal Remittances Received (2020-2023)

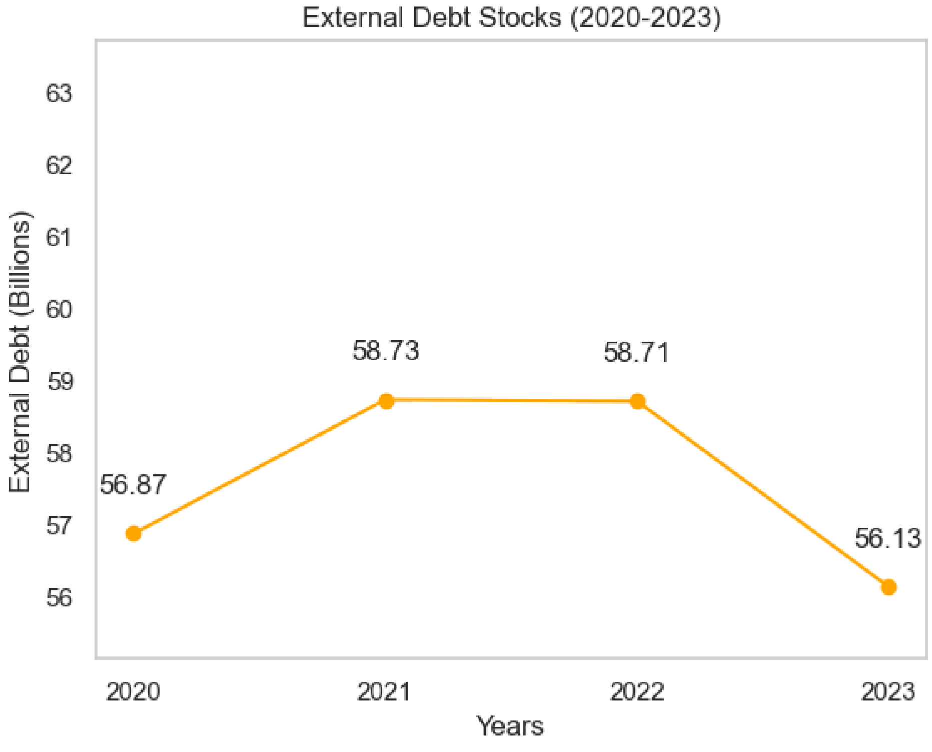


Personal remittances received can be defined as current transfers c. a thousand million US dollars received by resident individuals from persons of the same citizenship who live and work outside their country. As far as the case of Sri Lanka is concerned, for example remittances are very much included in the economy of the country since they serve as one of the household incomes generating activities in the island nation, and they are regarded as one of the factors contributing the economic stability of the country even more.

Cohort analysis also showed considerable variations in the level of personal remittances received over the period from 2020 to 2023. In the year 2020, the total remittance declines were recorded at $7.14 billion, representing the provisions extended by the foreign employment cohort of Sri Lankans during this most difficult time – the period of the COVID – 19 pandemic. Nevertheless, the figure plummeted in the year 2021 to $5.52 billion, perhaps due to several circumstances wherein the global economic recession, the retrenchment of many workers, and even some government measures may have prevented able-bodied individuals from remitting funds to their families.

In 2022, the downward trend persisted, dropping even more to $3.82 billion. This indicates more severe economic difficulties: more expensive life overseas with more limited job opportunities and the prolonged effects of Covid-19 on the world's economy. Still, in 2023, there was a bit of catching up when the figure rose to $6.02 billion. This growth could signify better job opportunities for Sri Lankans working abroad and a return to equilibrium after the turbulence caused by a pandemic.

External Debt Stocks (2020-2023)



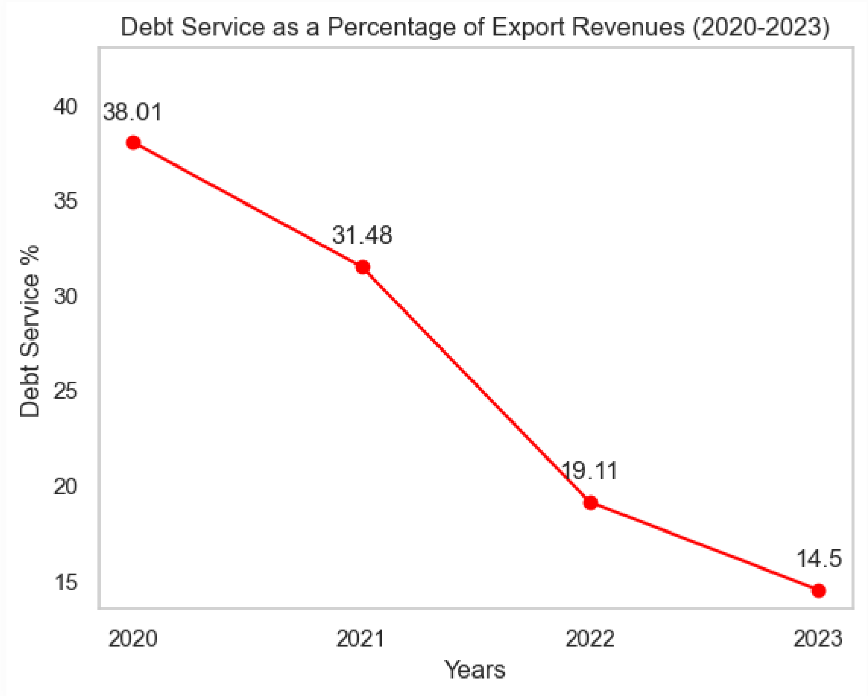
External debt is defined as the summation of all monetary obligations owed to a country's foreign creditors which range from international financial units, foreign governments to private lenders. External debt stocks in the context of Sri Lanka presents a clear picture of the financial liability of the nation and the overall economic conditions. About the external debt stock in billions of current US dollar from the year 2020 to the year 2023, there has been a little high and a little low in the maximum total debt level. The external debt of Sri Lanka in the year 2020 was about $ 56.87 billion. In 2021, this rose slightly to about 58.73 billion US dollars, a period that may have been utilized in taking out loans for the purpose of boosting the economic recovery and development processes after diverse challenges in the globe.

In the following years, there was even a slight reduction in the overall external debt. In the year 2022, external debt reached $58.71 billion, meaning that there was possible management of the previous stock of debt without necessarily borrowing more. Whereas by 2023, the total dropped to $56.13 billion, thus illustrating how the Sri Lankan authorities were interested in keeping their debt low due to economic factors.

In view of the fact that the country relies heavily on foreign sources of funds for the implementation of most developmental projects and the maintenance of sufficient foreign reserves, external debt management is of utmost importance to Sri Lanka. While external borrowing can be advantageous in many situations, its excessive accumulation can lead to certain risks, such as difficulties in repayment and the risk of triggering an economic crisis. In this sense, the comprehension of the amounts of these debts provides an idea of the more general economic picture of the country including its balance of payments, the stability of the currency in circulation, and the economic outlook with respect to development and sustainability.

Total Debt Service as a Percentage of Export Revenues (2020-2023)

The total debt service ratio is the ratio of debt repayment by the country to its export earning in a given time frame. In the case of Sri Lanka, the figures have dropped significantly from 38.01% in 2020 to standing at 14.5% in 2023 meaning that less percentage of the country's gross earnings from exports is allocated for servicing its debts and that in recent times, a lower proportion of the foreign exchange income has been used up in paying off debts owing to the country's export activities compared to how it was before.



Debt payment increases the opportunity cost of essential investments, such as health, education or even basic infrastructure, because a significant proportion of export earnings can't be spent on these priorities. However, for Sri Lanka, which has only a short time ago emerged from an economic slump, the maintenance of its very heavy debt burden has always been a strain, as it has had to reduce spending for domestic growth and consequently, limit the government's ability to spur growth in the economy as a whole. Consequently, that affects the provision of employment opportunities and public resources and ultimately general wellbeing of the people.

In this context, it is possible that Sri Lanka will have greater leeway for achieving economic recovery and growth after the debt service ratio has been contracted. Lower resources dedicated to debt service may allow for reinvestment in strategic sectors that would enhance economic resilience and promote growth over the longer term. Therefore, the change could also reflect steady improvements in investor confidence as a signaling factor on the way toward achieving financial stability. The part of the debt that remains is therefore still dangerously speculative and, if fiscally handled carelessly, may put Sri Lanka in a predicament in the years to come. Accordingly, further economic diversification, careful management of the debt, and more investments in the productive sectors will be vital for sustainable economic growth.

Recovery Strategies and Policy Effectiveness

In the aftermath of the COVID-19 pandemic, Sri Lanka's economic recovery has involved several different approaches, especially concentration towards certain sectors namely tourism, agriculture, and exports while inter-alia contemplating on the factors of inflation, unemployment, and economic development in general. The assessment of the government, and every other entity's effort towards achieving the suasion goals also indicates successes and failures thus requiring all-round elucidation on the recovery promoting measures.

Government Fiscal Measures and Economic Stabilization

The economic depression caused by the violent pandemic prompted the Sri Lankan government to enact a few fiscal policies sought to counter the slump and those polices were expansionary in nature. It included emergency cases of foreign financial institutions and the local case which involved tax revision and restructuring of debts. The response from government was paramount to curb the short-term financial distress, aid in the expansion of domestic industries and contain inflation. Regardless of this interference, this nation still faced some persistent inflation and obnoxiously high rates of unemployment, thus a need for better policies.

One important element of the recovery strategy was devoted to the stimulation of sectors that have been affected the most by the pandemic. For instance, prior to the crisis, tourism which accounted for almost 12% of GDP, suffered a lot because of the worldwide travel bans. As borders began to open and support directed at the tourism industry was introduced there have been some positive effects however the situation remains tenuous owing to the uncertainties that are still affecting the international travel and consumer confidence. Further still, investment in the advertising of internal tourism and improvement of services is very important for the future of this industry.

Combating inflation and addressing cost of living issues

The sharp upward trend of inflation that reached a whopping 47.46% in the year 2022 emphasized the importance of tackling the cost-of-living issues of Sri Lankans. The monetary policy adopted by the government in the short run required making interest rates more upward which in turn discouraged borrowings. While this policy was designed to control prices and intermediation under it, there were fears of potential stagnation of economic growth. Affluent and middle-class households that spare the lion's share of their income on the basic needs commodities felt the heat of inflation the most. Consequently, there were political considerations as to how severe austerity measures can be implemented looking into the need to protect the poor from further economic stress.

Furthermore, the provision of subsidies for certain essential goods and services was another important strategy aimed at reducing the burden of such costs on consumers. However, such subsidies are often limited by available funds and may create fiscal problems in the long run. One of the key policy issues for the government of Sri Lanka is ensuring that these measures can be maintained whilst achieving their purpose of helping those in need.

Improvements Made to the Labor Market

The growing unemployment rate standing at 6.36% in the year 2023 calls for urgent intervention in terms of developing labor market policies. In response to this, the government has launched different skills enhancement and vocational training initiatives to prepare the workforce for the new industries that are likely to arise. These are particularly useful in reconciling supply and demand for labor that may be caused by the changes in some industries after the Covid-19 pandemic.

Most importantly, promotion of business activities and the growth of small and average mediums scale enterprises (SMEs) is also very key in rehabilitation. Creation of policy framework that will support the suppression of risk and provision of funding to innovative businesses through their nascent stages, especially new and small enterprises is vital as such businesses will create jobs and aid in overall economic development.

Conclusion

To summarize, one may come to the conclusion that assessment of recovery strategies and policy implementation in Sri Lanka is both successful and challenging. The government's fiscal measures have managed to provide the much-needed relief, but high inflation and unemployment still remain obstacles to stabilizing the economy. In relation to that, the implementation of a multi sector approach that consists of well targeted sector specific measures, successful inflation control, and labor market strengthening mechanisms will be crucial for the recovery of Sri Lanka. There is a need for continuous adjustment and responsiveness to prevailing circumstances so as to promote stability and growth in the economy over the long run after the Covid period.

Recommendations for Sustainable Economic Growth

A comprehensive perspective is required to promote economic growth in Sri Lanka in a sustainable manner. This should focus on structural weaknesses, strengthen sectoral development and include creating conditions that promote economic growth. An assessment of some of the critical economic parameters and their dynamics in recent years reveals some recommendations that could help Sri Lanka reach its long-lasting stability and prosperity.

1. Enhancing Sectoral Diversification and Resilience of the Economy

The immediate strategy should be to promote sectoral diversification in critical areas such as tourism, agriculture and manufacturing. Also, given the importance of tourism and agriculture to the economy, over-reliance on these sectors would put the economy at risk from external shocks including disease epidemics and adverse climate conditions. In this regard, i.e., the use of these industries, Sri Lanka regional growth should include strategies to broaden the range of product offerings within these industries and look for new ones, such as information and communication technologies as well as renewable energy and digital industries. For example, the government is encouraging technology and digital-based businesses by providing benefits to ICT start-ups and upgrading the digital connectivity to encourage diversification of the economy away from the conventional sectors.

Investing in sustainable agricultural systems is key in addressing the challenges of food security while economic stagnation. This involves the embracing of modern farming technologies, promotion of organic and environmentally friendly farming practices, and the enhancement of the small-scale farming sector. Moreover, it will be necessary to change some policies that have adversely affected outputs such as the temporary prohibition of the use of chemical fertilizers to facilitate the recovery and growth of the agriculture sector in the long run.

2. Managing Inflation and Promoting Stability in Prices

A high rate of inflation is still a significant impediment to economic growth as it affects consumer spending and reduces the spending capability of households. Many measures have been employed by the state to reduce inflation but most have proved unsustainable in the long run because of the monetary policy pursued. This might entail a restriction of growth in the money stock but without resorting to measures that would inhibit any economic activity. Inflation change can be attempted with preci1se and specific focus, most especially in the case of a cost-of-living crisis that usually hits the lower social classes the hardest, the middle-income group households.

Furthermore, in order to prevent erratic behavior of inflation, there is need to develop stronger price monitoring systems for essential goods. Dealing with inflation from the root, be it supply side, cost or demand-pull inflation, will always ensure a lasting remedy. Investment in local production of goods, especially where importation has very high costs, will help avoid cost push inflation in the future.

3. Enhancing Labor Market Adaptability and Skills

Issues of unemployment in Sri Lanka create the need for a flexible labor market that can respond to the prevailing changes in the economic environment. Educational institutions should focus on the establishment of vocational training programs, which are oriented to the labor market needs, to enable the workforce acquire needed skills for the sectors that are on high levels of demand. Such programs should be geared towards equipping the workforce with skills in information technology, information technology literacy, and the skills in particular crafts necessary for an advanced growing economy.

In addition, it is anticipated that such measures will encourage individuals to shift and embrace changes in the labor market through policies that promote gig and freelance jobs. Directing resources to financing and training opportunities for entrepreneurs will also make the business ecosystems in the relevant place more robust. In this regard, Sri Lanka can mitigate over-reliance on economic sectors characterized by formal employment by encouraging growth of small and medium-sized enterprises (SMEs), thus allowing for a more equitable economic growth.

4. Promoting Responsible Fiscal Management and Good Governance

The prudent management of public finances is essential for ensuring that the economy remains stable in the long run. Restructuring the debt and effectively managing foreign assistance should be complemented by fiscal policies which are growth oriented and reduce fiscal imbalances. In order to sustain the debt burden, the government needs to put in place preconditions for engaging in new borrowing which assures that the new resources will only be used for development of high yielding physical infrastructure and social services but not for recurrent expenditures.

Furthermore, the improvement of practices aimed at governance that is transparent and accountable will aid in restoring the appreciation of investors as well as the general populace. The enhancement of these challenges, coupled with the improvement of compliance mechanisms and the reduction of corrupt practices through the strengthening regulatory agencies, will improve the provision of public services and encourage foreign direct investments. Encouraging domestic and foreign investors' involvement in economic activities will require transformation of the business regulations towards ease of doing business and this will in turn promote economic development in the country.

5. Enhancing Social Protection and Inequality Reduction.

Sri Lanka aims to achieve inclusive growth and thereby has to focus on social safety nets, which are investment policies focused on the economic marginal populations, susceptible to economic shocks. The emphasis on poverty alleviation, provision of low-cost housing, health and education services is very much needed in order to uplift the people from the clutches of poverty and harness their full productive potential towards economic growth. In respect of inflationary effects, the provision of subsidies and welfare assistance to the underclass will help reduce the level of impact within the society and reposition the living conditions of the concerned households.

In addition, although infrastructural and educational regional imbalances can exacerbate economic inequalities within countries, efforts aimed at correcting such divides may potentially help in dealing with the concerns. Addressing issues affecting rural populations and encouraging investment in growth zones to targeted sectors will be instrumental in ensuring that no one section of the community is left out in development.

Conclusion

To conclude, the expansion as well as the growth of the perennial economy of Sri Lanka would of necessity take more than one dimension. Sectoral resilience, inflation, employment, fiscal policies, equity are all necessary in achieving such sustainable growth. The implementation of these recommendations, will be able to solve some of the core structural problems and form a firm basis for new growth. It gives them that augurs well for Sri Lanka's economy in the process of growing transformation - it will be more open, inclusive and sustainable affording all the people of Sri Lanka even a more vibrant economy, while being better able to cope with external and domestic challenges.

Research Conclusion

In summary, this report assesses Sri Lanka's economic performance in recent years and tries to explain the various issues at play in the growth and cohesion of the country. In looking at trends such as GDP growth, GNI per capita, inflation rate, and unemployment rates, it will not be surprising to state that the country has had its share of challenges in the last few years. Most importantly, as it was the case with many other countries, COVID-19 together with foreign and local economic barriers posed serious constraints. These challenges have also exposed some of their structural weaknesses, like their dependence on a few sectors, price differential shocks, and rapid growth without balance.

Nevertheless, Sri Lanka has been able to bounce back, with improvements registered in some of the core economic indicators, for example, GDP, in the year 2023. However, this study stresses the need for continued policy actions. Policy proposals focused on sectors development, control of inflation, flexible labor market, and good governance elucidate the critical drivers of growth and stability in the long run. In this way, and by mitigating those challenges and adopting integrated and dynamic policies, Sri Lanka will be able to fortify its economy, lower levels of inequality, and promote better living conditions for all its people.

To this end, an attitude towards environmental sustainability, decent social policies, and sound budgets will be required. This case study is both a mirror of the economic history of Sri Lanka and a possible future how such an economy may develop – one which grows quickly and can also cope with the challenges and fluctuations of global capitalism.

I appreciate your efforts to study this research. Your involvement in these economic dynamics is commendable and hopefully this research can be used as a reference for future endeavors and discussions on sustainable development in Sri Lanka.