



Growth Scenarios for Tourism to Sri Lanka

2024

A time series analysis conducted by
Sri Lanka Tourism Development Authority
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Introduction

The tourism landscape is dynamic, continually shaped by evolving consumer behaviors, technological advancements, and global economic shifts. As we delve into 2024, the tourism industry stands at the precipice of transformative trends that promise to redefine the way we explore and experience the world.

A. Worldwide economic scenario, 2023 and 2024

In 2023, the global economy faced challenges in its recovery from the COVID-19 pandemic and Russia's invasion of Ukraine. Despite initial signs of resilience, such as a rebound upon reopening and successful inflation reduction, economic activity remained below pre-pandemic levels. Emerging markets and developing economies struggled, causing disparities among regions. Factors hindering recovery included ongoing pandemic and war consequences, geo-economic fragmentation, and cyclical forces like monetary tightening and fiscal support withdrawal amidst high debt. Additionally, extreme weather events added complexity. Global growth was forecasted to slow from 3.5% in 2022 to 3.0% in 2023 (IMF, 2023).

The World Economic Situation and Prospects 2024 report anticipates a slowdown in global GDP growth, dropping from 2.7% in 2023 to 2.4% in 2024, indicating a continuation of sluggish growth patterns. Developing economies are grappling with pandemic-induced setbacks, characterized by high debt and investment shortfalls. South Asia experienced growth of approximately 5.3% in 2023, projected to reach 5.2% in 2024, primarily driven by India's robust expansion, sustaining its status as the world's fastest-growing large economy, expected to grow by 6.2% in 2024, buoyed by domestic demand and manufacturing and service sector growth. Although there are signs of easing global headline inflation, decreasing from 8.1% in 2022 to an estimated 5.7% in 2023 and projected to decline to 3.9% in 2024, food price inflation persists as a critical concern, exacerbating food insecurity and poverty, especially in developing nations. (UN,2024)

Impact on Tourism in Sri Lanka

The global economic slowdown is expected to reduce disposable income and international travel spending, impacting global travel demand. Developing economies facing economic challenges may see a decline in outbound tourists, affecting Sri Lanka's tourism reliant on diverse visitors. Consequently, Sri Lanka may pivot towards promoting domestic tourism amidst decreasing international visitors. While global headline inflation is forecasted to decrease, persistent food price inflation could raise costs for tourists, affecting their budgets. Despite these challenges, the robust growth in India and South Asia may offer opportunities for attracting tourists to Sri Lanka from these regions.

Growth Projections, 2024 (Updated)



Source: IMF

Growth Projections 2023,2024 & 2025

(Real GDP, annual percent change)	2023	2024	2025
World Output	3.1	3.1	3.2
Advanced Economies	1.6	1.5	1.8
United States	2.5	2.1	1.7
Euro Area	0.5	0.9	1.7
Germany	-0.3	0.5	1.6
France	0.8	1.0	1.7
Italy	0.7	0.7	1.1
Spain	2.4	1.5	2.1
Japan	1.9	0.9	0.8
United Kingdom	0.5	0.6	1.6
Canada	1.1	1.4	2.3
Other Advanced Economies	1.7	2.1	2.5
Emerging Market and Developing Economies	4.1	4.1	4.2
Emerging and Developing Asia	5.4	5.2	4.8
China	5.2	4.6	4.1
India	6.7	6.5	6.5
Emerging and Developing Europe	2.7	2.8	2.5
Russia	3.0	2.6	1.1
Latin America and the Caribbean	2.5	1.9	2.5
Brazil	3.1	1.7	1.9
Mexico	3.4	2.7	1.5
Middle East and Central Asia	2.0	2.9	4.2
Saudi Arabia	-1.1	2.7	5.5
Sub-Saharan Africa	3.3	3.8	4.1
Nigeria	2.8	3.0	3.1
South Africa	0.6	1.0	1.3
Memorandum			
Emerging Market and Middle-Income Economies	4.2	4.0	4.0
Low-Income Developing Countries	4.0	5.0	5.6

Source: IMF

In 2023, international tourism surged to 88% of pre-pandemic levels, totaling 1.3 billion arrivals. This rebound was driven by pent-up demand, improved air connectivity, and strong recovery in Asian markets, anticipating full recovery by 2024's end. Notably, the Middle East exceeded pre-pandemic levels with a remarkable 22% rise. Europe, the top destination globally, reached 94% of 2019 levels, buoyed by intra-regional travel and visitors from the United States. Africa and the Americas displayed resilience, achieving 96% and 90% of pre-pandemic arrivals, respectively. Asia and the Pacific reported varied recovery rates, with South Asia leading at 87% and North-East Asia at 55% (UNWTO, 2024).

In 2024, global tourism is forecasted to fully recover to pre-pandemic levels, with an expected 2% increase compared to 2019 (UNWTO, 2024). Key considerations for year 2024 include:

- Chinese outbound and inbound tourism in 2024 is forecasted to increase rapidly, attributed to enhanced visa procedures and improved air travel capabilities.
- Visa and travel facilitation initiatives are set to encourage tourism in the Middle East and Africa. The Gulf Cooperation Council (GCC) countries are planning to introduce a unified tourist visa akin to the Schengen visa, while Kenya and Rwanda are implementing measures to ease travel within Africa.
- Europe is anticipated to lead once more in 2024. Romania and Bulgaria are set to become part of the Schengen zone, enabling free movement, starting in March. Additionally, Paris will be the host city for the Summer Olympics scheduled for July and August.
- Robust tourism originating from the United States, supported by a resilient US dollar, will persist in favoring destinations across the Americas and worldwide.
- Sustained recovery in international tourism and confidence levels face considerable obstacles due to ongoing economic and geopolitical challenges. Persistent inflation, elevated interest rates, fluctuating oil prices, and trade disruptions may further affect transportation and lodging expenses throughout 2024.
- There is an anticipation for tourists to increasingly prioritize affordability and opt for destinations closer to their residences. Furthermore, sustainable approaches and flexibility will gain significance in influencing consumer decisions.
- The ongoing Hamas-Israel conflict could disrupt travel in the Middle East and affect traveler confidence. Additionally, uncertainty stemming from Russian aggression towards Ukraine and other increasing geopolitical tensions remains a significant factor impacting confidence levels.

B. Sri Lankan Economic Scenario 2023 and 2024

Sri Lanka's economy contracted by 7.8% in 2022 and another 7.9% in the first half of 2023. Key sectors such as construction, manufacturing, real estate, and financial services faced significant challenges, including reduced private credit, input shortages, and supply chain disruptions. These difficulties worsened the impact of income cuts and job losses observed in 2022. The Colombo Consumer Price Index indicated a peak inflation rate of 69.8% in September 2022, which sharply declined to 4% by August 2023 due to subdued demand, albeit from a high starting point (CBSL, 2024).

C. Challenges for Sri Lanka in 2024

Sri Lanka is in a phase of economic recovery following its severest crisis post-independence. Governmental and Central Bank interventions in 2022 and 2023 restored macroeconomic stability. The ongoing IMF-EFF arrangement and debt restructuring efforts further solidify stability and boost confidence. Positive growth rates in the near term are expected to gain momentum in the medium term, supported by robust macroeconomic stability. Government reforms focus on addressing vulnerabilities like corruption. However, challenges lie ahead, especially from attempts to raise government revenue through tax hikes, potentially leading to price pressures, particularly in 2024. Despite this, short-term inflationary effects are anticipated due to reduced purchasing power among the majority. Sri Lanka's close ties with the global economy mean international developments will significantly impact reform efforts. Additional challenges stem from geopolitical volatility, upcoming elections, and climate-related risks (CBSL, 2024).

Despite these challenges, Sri Lanka achieved a significant milestone in tourist arrivals between January and December 2023. The total number of visitors surpassed the previous year's figure of 719,978, reaching an impressive 1,487,303 tourists. Europe constituted 50.9% of total arrivals while Asia and the Pacific became one of the main source markets for tourists visiting Sri Lanka, constituting 40.1% of the total influx. This shift in tourist origin underscores the changing dynamics in Sri Lanka's tourism industry, with Europe also playing a significant role while Asia and the Pacific emerge as key contributors. The increase in tourism is attributed to heightened demand from countries such as India, Russia, Germany, the United Kingdom, and Australia, which have significantly boosted Sri Lanka's tourism sector. Additionally, the Americas accounted for 6.4% of total tourist arrivals, while the Middle East and Africa contributed 1.8% and 0.6%, respectively.

Impact on Tourism

As per the above challenges the tourism industry in Sri Lanka faces various hurdles that could impact its growth and stability. Firstly, increased taxes and administrative changes may raise costs for tourists, influencing their travel decisions and expenditure. Additionally, reduced purchasing power among the population could lead to fewer domestic tourists, affecting local businesses and attractions. Moreover, the country's global interconnectedness means that international developments, such as geopolitical tensions or economic fluctuations, may cause fluctuations in tourist arrivals. Geopolitical volatility and uncertainties surrounding upcoming elections may also deter potential tourists, particularly those concerned about safety, further impacting overall tourism numbers. Lastly, climate-related risks, such as extreme weather events, have the potential to disrupt travel plans and infrastructure, affecting tourist arrivals and experiences. These factors collectively highlight the complex landscape within which the Sri Lankan tourism industry operates, necessitating careful management and adaptation strategies to mitigate their effects.

Methodology

Growth scenarios have been derived from a time series analysis of actual tourist arrivals to Sri Lanka considering peak and off-peak trend to Sri Lanka. Two primary scenarios, a conservative one representing average growth and an optimistic one depicting higher growth, offer a range of potential international tourist arrivals. The data is accurate as of the publication date (i.e., Feb 15, 2024) and may fluctuate due to market dynamics. The Sri Lanka Tourism Development Authority (SLTDA) intends to refresh these growth scenarios quarterly.

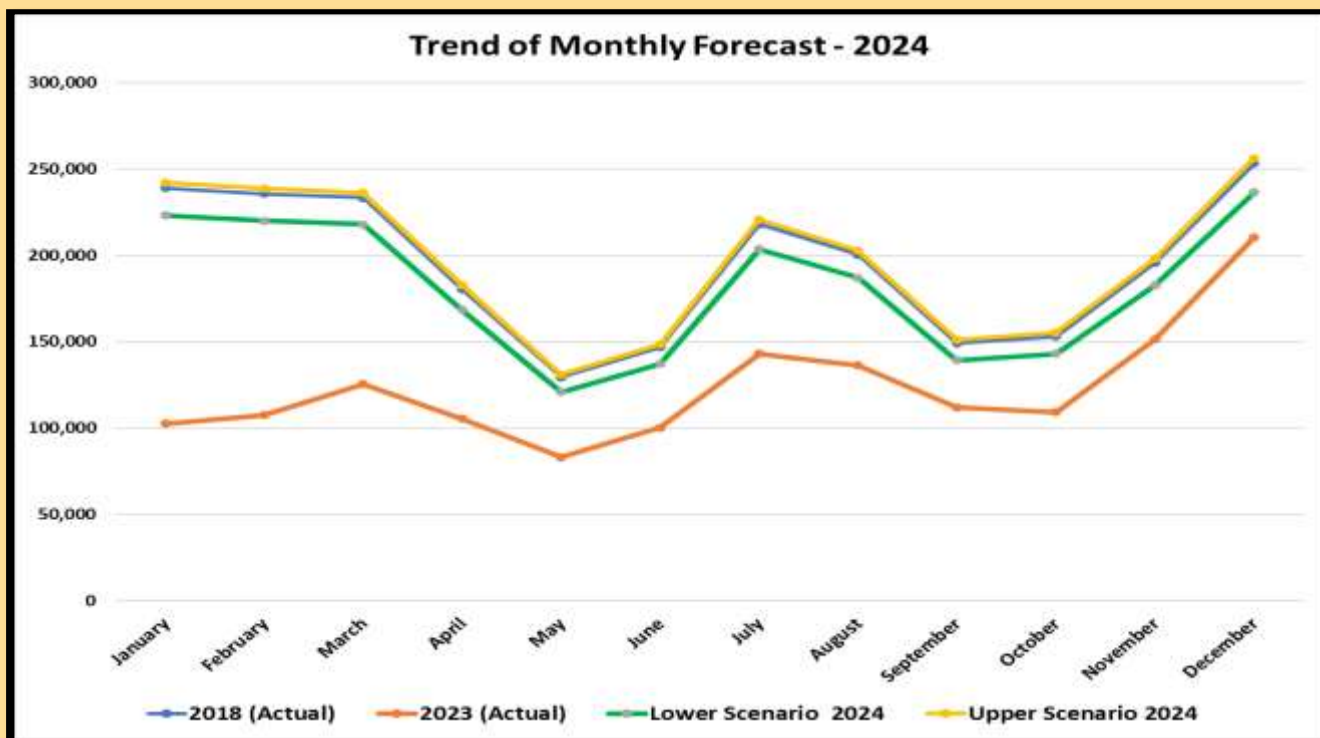


International Tourist Arrivals to Sri Lanka, 2024

(Current as of 15th February 2024)

Month	2018 (Actual values)	2023 (Actual values)	Conservative Scenario 2024	Optimistic Scenario 2024
January	238,924	102,545	223,179	241,962
February	235,618	107,639	220,091	238,614
March	233,382	125,495	218,002	236,350
April	180,429	105,498	168,539	182,724
May	129,466	83,309	120,934	131,112
June	146,828	100,388	137,152	148,695
July	217,829	143,039	203,474	220,599
August	200,359	136,405	187,155	202,907
September	149,087	111,938	139,262	150,983
October	153,123	109,199	143,032	155,070
November	195,582	151,496	182,693	198,069
December	253,169	210,352	236,485	256,389
Total	2,333,796	1,487,303	2,180,000	2,363,475

These growth scenarios are based on current market forces and are subject to change.



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