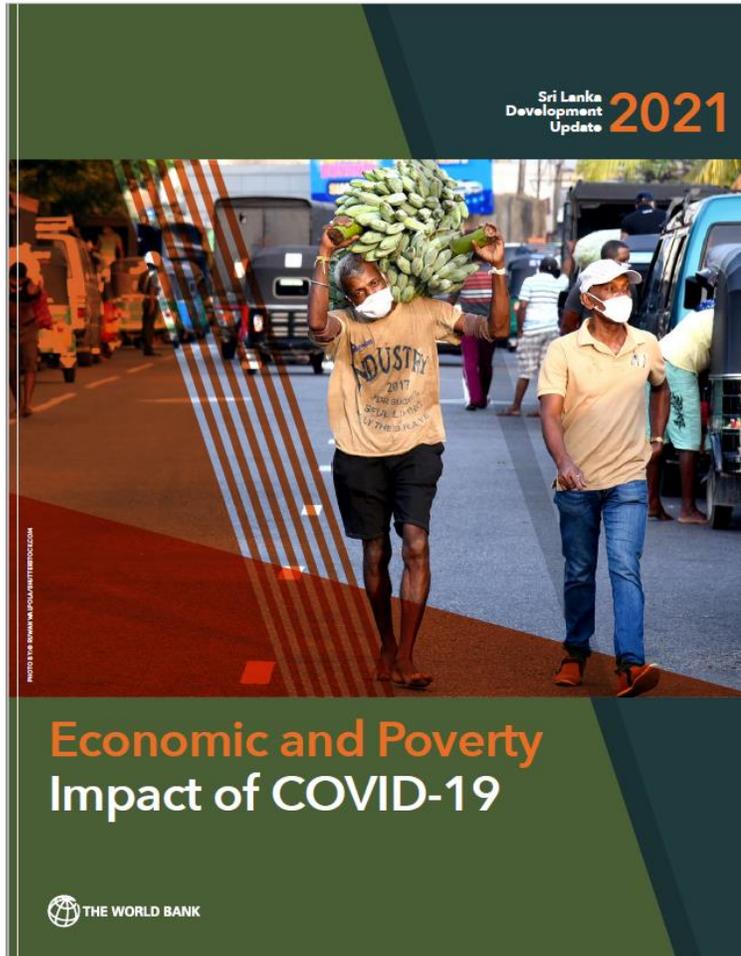


Sri Lanka Development Update 2021

Economic and Poverty Impact of COVID-19

Five Key Messages
World Bank Panel Discussion
April 28, 2021

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1. Sri Lanka's economy has been hit hard by the COVID-19 pandemic, but the economic recovery has started.

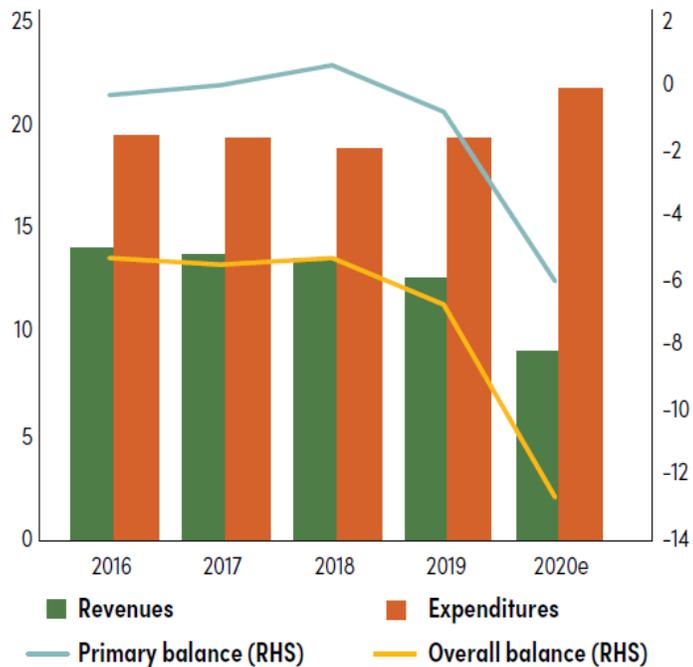
- **Sri Lanka's economy contracted by 3.6 percent in 2020**, due to COVID-19 containment measures enacted in the second quarter and collapsing global demand.
- **The economy began to recover** in the third quarter and the momentum continued in the fourth, despite a second wave of COVID-19 infections.
- **The government took proactive measures** to mitigate the impact of the pandemic and the Central Bank of Sri Lanka contributed significantly to the crisis response.
- **Financial inflows were insufficient to meet external liabilities in 2020**, even though the current account deficit narrowed.

2. The economic contraction and elevated fiscal deficit amid the pandemic increased concerns about debt sustainability.

Key fiscal balances

(Share of GDP)

(Share of GDP)

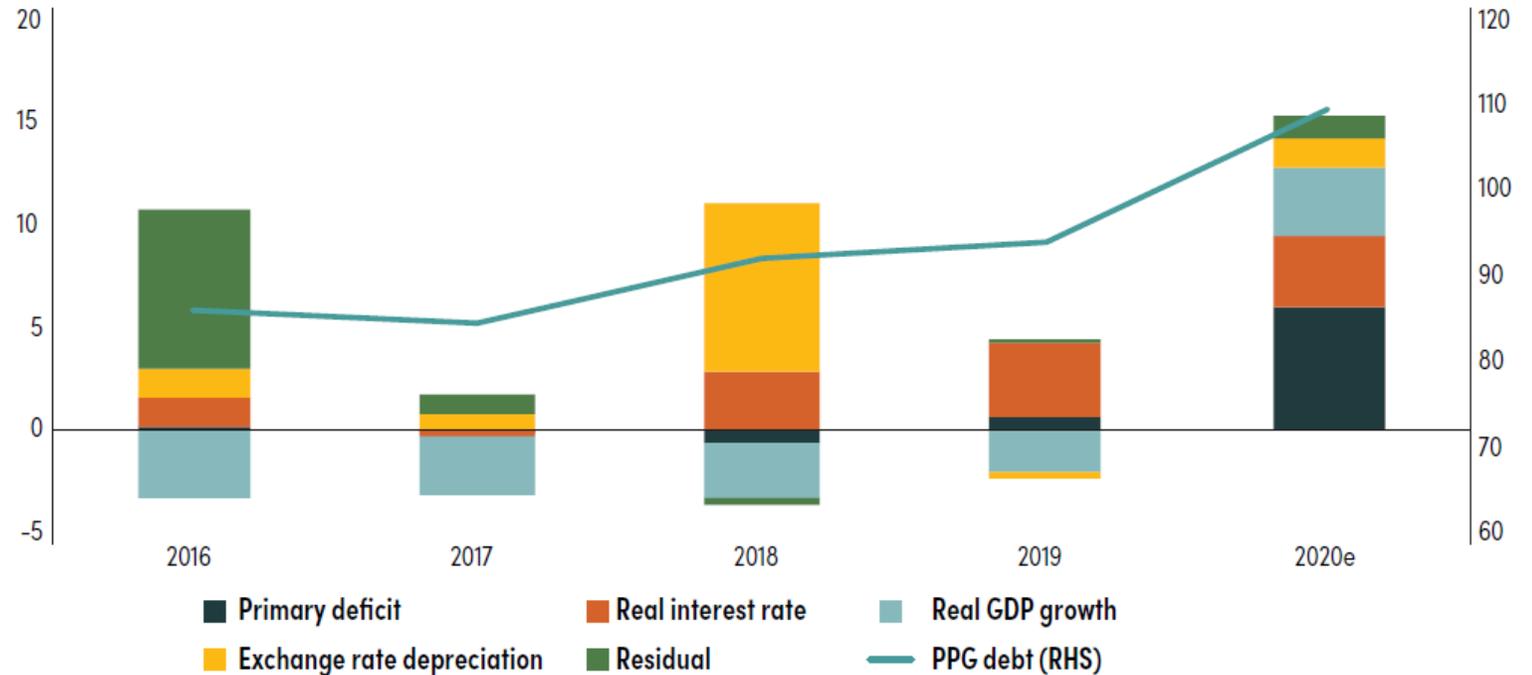


Source: Ministry of Finance and staff calculations.

Drivers of public and publicly guaranteed debt

(Percentage point contribution)

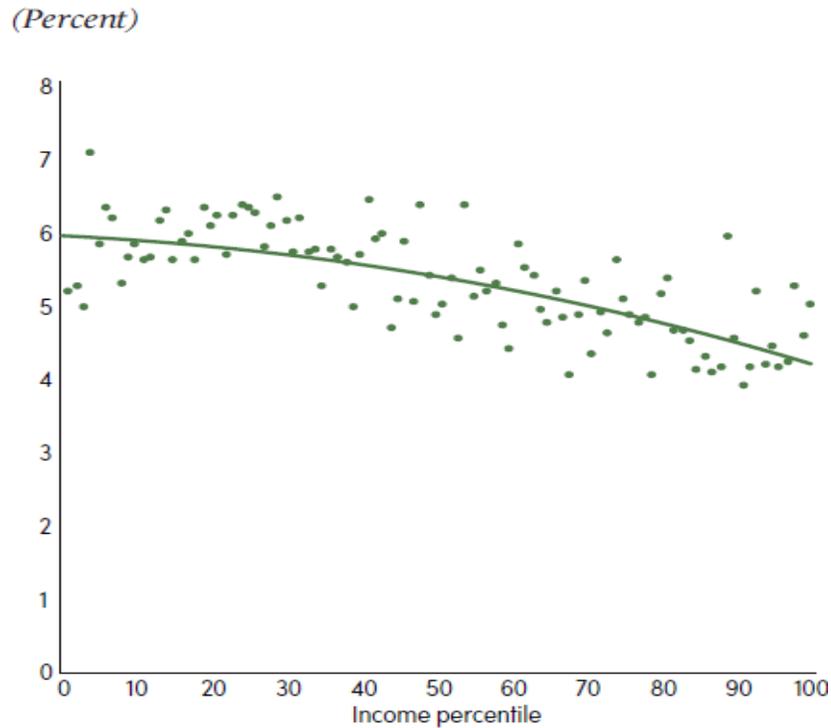
(Share of GDP)



Source: Central Bank of Sri Lanka and staff calculations.

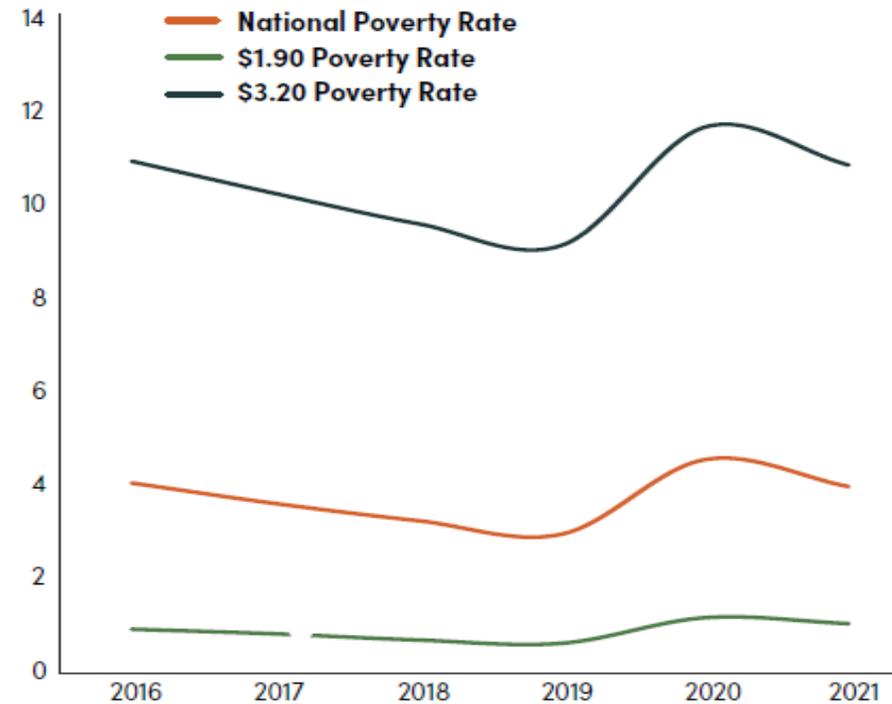
3. Lost jobs and reduced earnings due to the economic contraction reversed past progress in poverty reduction.

Average per capita income loss across the income distribution



Source: World Bank staff estimation using HIES 2016.
Note: Income centile is based on per capita household income.

Poverty impact of COVID-19
(Percent)

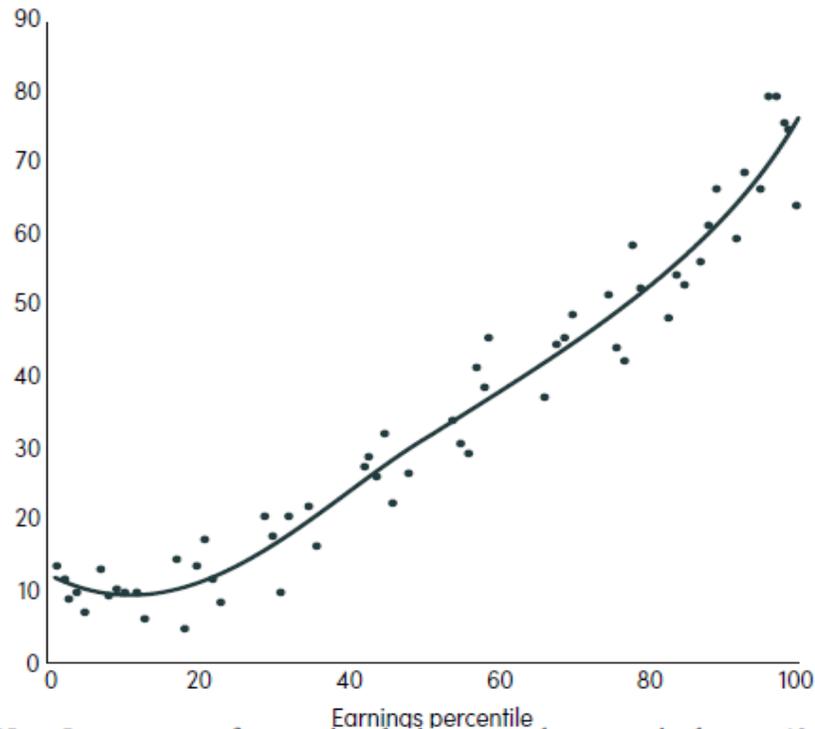


Source: World Bank staff estimation using HIES 2016.

4. Inequality in digital access can aggravate economic and spatial inequality.

Correlation between income and internet use

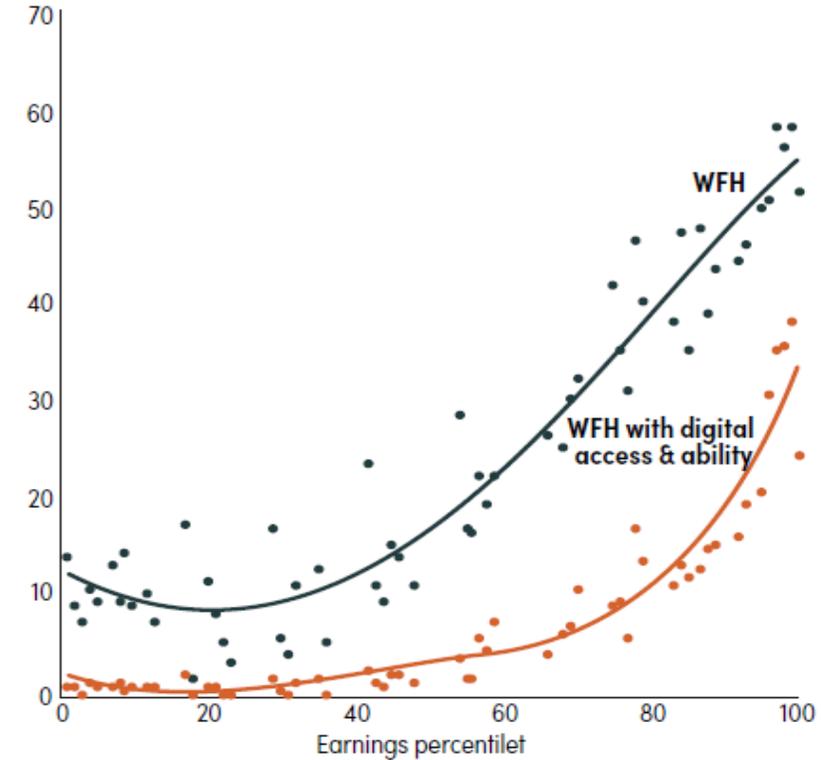
(Percent of workers)



Note: Internet use refers to using the internet at least once in the past 12 months.
Source: LFS 2018 and staff estimations.

Teleworkable occupations

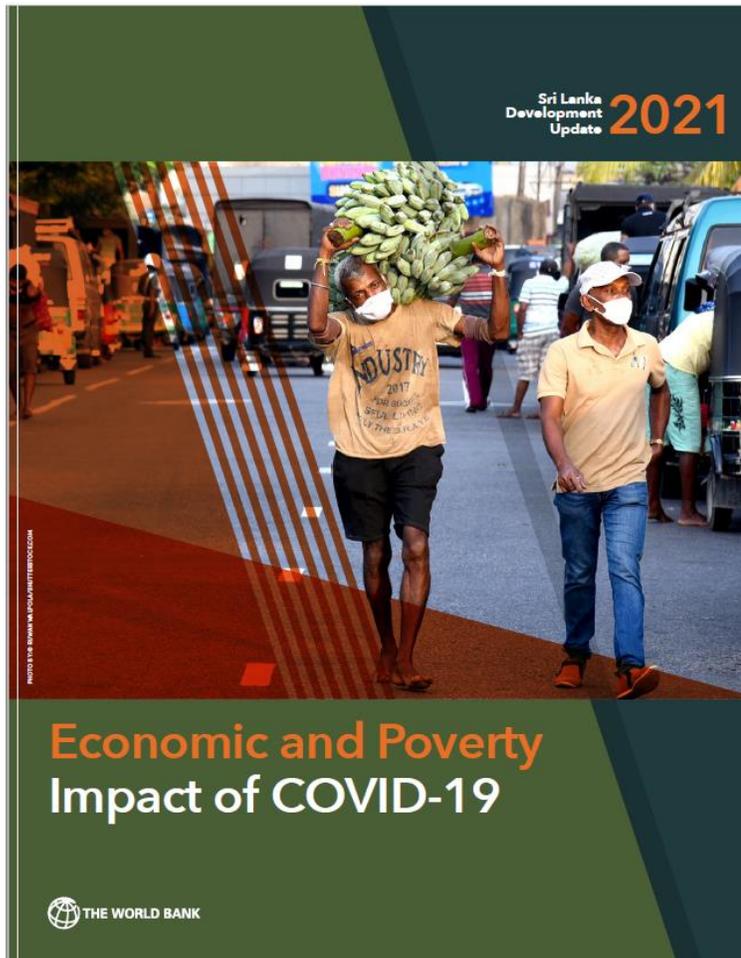
(Percent of workers)



Note: Work from Home (WFH) or tele-workable occupations are those jobs where the majority of daily tasks can be performed away from the workplace. This classification of occupations is based on Dingel and Neiman (2020).
Source: LFS 2018 and staff estimations.

5. The economic outlook is uncertain and depends both on domestic and international factors.

- **Growth is expected to recover this year**, mainly reflecting a base effect and FDI inflows. Gradually normalizing tourism and already signed investments will support growth; the subdued global recovery will dampen export demand.
- **Growth prospects over the medium-term are clouded** by large uncertainty, trade restrictions, economic scarring from the slowdown, and the high debt burden.
- **The outlook subject to both upside and downside risks.** On the upside, the global economy may recover faster, and the global tourism rebound more quickly. Downward risks persist pertaining to debt and external sustainability given high debt and low external buffers.



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Download the full report here

<https://www.worldbank.org/en/news/press-release/2021/04/09/sri-lankan-economy-recovers>

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