



## Tourism as a Catalyst for Economic Growth: A Case Study of Sri Lanka

Kalsoom Ahmed<sup>1</sup>, Zeeshan Ahmad<sup>2</sup>, Farhan Ahmed<sup>3</sup>

<sup>1</sup> Govt. Girls Degree College, Larkana.

Email: [kalsoom.fatah@gmail.com](mailto:kalsoom.fatah@gmail.com)

<sup>2</sup> Tallinn University of Technology, Estonia.

Email: [zeeshanahmad.da@gmail.com](mailto:zeeshanahmad.da@gmail.com)

<sup>3</sup> NED University, Karachi.

Email: [fahmed.ned@gmail.com](mailto:fahmed.ned@gmail.com)

| ARTICLE INFO                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | ABSTRACT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
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| <p><b>Submission:</b><br/>September 03, 2026</p> <p><b>Revised:</b><br/>September 30, 2026</p> <p><b>Accepted:</b><br/>October 10, 2026</p> <p><b>Available Online:</b><br/>October 19, 2026</p> <p><b>Keywords:</b><br/>Economic Growth, IMF<br/>Bailout, Sri Lanka Tourism,<br/>Economic Recovery, Export<br/>Diversification, Structural<br/>Changes.</p> <p><b>Corresponding author:</b><br/><b>Kalsoom Ahmed</b><br/><b>Email:</b><br/><a href="mailto:kalsoom.fatah@gmail.com">kalsoom.fatah@gmail.com</a></p> | <p>By examining the effects of important variables including tourism, employment levels, foreign visitors, GDP, GDP per capita, and exchange rate variations, this research explores the factors that influence economic development in Sri Lanka. The study uses econometric modeling to assess the link between these independent factors and the dependent variable, economic growth, using time-series data from 2000 to 2023. The results show that tourism and foreign visitors have a major impact on economic expansion, which is consistent with the industry's vital position in foreign exchange profits. Additionally, there is a favorable association between employment levels and labor market efficiency. Overall GDP and GDP per capita show promise as measures of economic success, but exchange rate volatility has a mixed effect, highlighting the necessity for stable monetary policy. In order to guarantee continued growth in Sri Lanka, the report ends with policy suggestions to improve the country's tourist infrastructure, stable the currency rate, and promote inclusive economic development.</p> |

### Introduction

Tourism industry being considered as corner stone for Sri Lanka, three main sectors of Sri Lanka's economy are services, industry, and agriculture. It is well-known for exporting tea, but it also depends significantly on tourism and clothing production. Nonetheless, the nation has had several difficulties, such as a serious debt crisis, elevated inflation, and a lack of foreign cash, all of which led to a debt default in 2022. Rebuilding foreign reserves, anti-corruption initiatives, and fiscal reforms have been the main focuses of recovery efforts, which were aided by an IMF bailout. Trade prospects are provided by its advantageous position in the Indian Ocean, but political stability, export diversification, and structural changes are necessary for long-term success.

### Economic Growth

Economic growth, which is often expressed as the yearly percentage change in GDP, is the gradual rise in a nation's output of goods and services. The success of Sri Lanka's main industries, services, and agriculture as well as its capacity to bounce back from setbacks like the 2022 financial crisis are reflected in the country's economic development. Reducing poverty, raising employment, and raising living standards all depend on sustained growth.

## **Tourism Industry of Sri Lanka**

Tourism contributes to foreign currency reserves by generating revenue from both local and foreign visitors. Sri Lanka is well known for its beaches, wildlife, and cultural legacy and tourism is a significant economic engine of Sri Lankan Economy. However, the industry was severely interrupted by events like as the COVID-19 epidemic and the Easter Sunday assaults in 2019. In the year 2022 Sri Lanka witnessed severe economic crisis as country faced low foreign reserves, foreign debt crisis and its macroeconomic mismanagement. A flourishing tourist sector stimulates commerce, investment, and employment, all of which have a favorable effect on economic growth. This is the quantity of foreign visitors who come to the nation for business, pleasure, or other reasons. International travel has a direct impact on tourism-related income and indirectly boosts related sectors including retail, transportation, and hospitality. Increased foreign currency revenues, a vital resource for Sri Lanka's economy, are correlated with an increase in the number of visitors.

Since 1995, the tourist sector has greatly influenced Sri Lanka's GDP, employment, foreign exchange profits, and general development, hence reshaping the country's economic environment. Particularly since the end of the civil war in 2009, the tourist industry has developed into a significant part of Sri Lanka's GDP.

### **Contribution to GDP**

Because of the protracted civil war, tourism's GDP contribution was rather minimal in the mid-1990s. However, the industry had a sharp uptick in post-war recovery. By 2018, tourism made for between 5% and 10% of Sri Lanka's total GDP. The increase of foreign visitors, improved infrastructure, and government-sponsored advertising efforts were the main motivators. To further increase its economic impact, the business also serves as a catalyst for related industries including retail, food services, and transportation.

### **GDP Per Capita Growth**

The expansion of tourism has raised incomes and created possibilities in both rural and urban areas, which has improved GDP per capita. In nominal terms, GDP per capita increased from about \$700 to over \$4,000 between 1995 and 2019, with tourism contributing by creating jobs and foreign exchange. Remote locations have benefited economically from tourism, which has raised living standards and lessened regional inequality.

### **Surge in International Travelers**

Since 1995, Sri Lanka has seen a notable increase in the number of foreign visitors. About 300,000 tourists visited the nation each year in 1995, mostly from Europe. Thanks to increased political stability and active tourism marketing, the number of visitors soared after 2009 and reached a peak of almost 2.3 million in 2018. The surge of visitors has strengthened Sri Lanka's reserves and compensated for trade imbalances by bringing in much-needed foreign money.

### **Employment Generation**

One of Sri Lanka's biggest employers, the tourism sector offers both direct and indirect job possibilities. Because of the ongoing conflict, employment relating to tourism was limited in 1995. The industry grew significantly after the war, directly employing over 400,000 people by 2018, with many more working in associated sectors including retail, transportation, and hospitality. With jobs that promote social mobility and poverty reduction, the sector has had a particularly significant influence on the empowerment of women and young people in rural areas.

### **Exchange Rate Stabilization**

Over the years, tourism has been a vital source of foreign cash for Sri Lanka, assisting in the stabilization of its exchange rate. Pressures on the Sri Lankan Rupee (LKR) are lessened by tourism earnings, especially when export performance is weak.

Exchange rate volatility, as saw during the economic crisis of 2022, is still a problem, nevertheless. The delicate balance between economic stability and competitiveness has been highlighted by the weakening rupee, which has increased the cost of imports while also making Sri Lanka more appealing to tourists.

### **Challenges and Opportunities**

Although tourism has changed Sri Lanka's economy, there have been many obstacles to overcome.

## **Global Shocks**

The industry was significantly interrupted by incidents such as the COVID-19 epidemic, the Easter Sunday attacks in 2019, and the 2004 tsunami. Over-Reliance: The economy is susceptible to outside shocks because to its reliance on tourism.

## **Infrastructure and Sustainability**

To protect the environment and cultural legacy, there is an increasing need for sustainable tourist practices. However, there are other chances to diversify tourism products, including wellness, cultural, and eco-tourism, which can increase economic benefits evenmore.

## **Research Question**

What effect does Sri Lanka's Tourism Industry have on the Country's Economic Expansion?

## **Objectives**

1. To evaluate the contribution of tourism to employment generation and Gross Domestic Product (GDP).
2. To examine the impact of international tourist arrivals on foreign exchange earnings.
3. To investigate the effects of exchange rate fluctuations on the travel and tourism industry.

## **Literature Review**

It is often acknowledged that tourism plays a major role in the economic development of developing nations. The "tourism-led growth hypothesis" was first proposed by Balaguer and Cantavella-Jordá (2002), who claimed that the rise of the tourism industry boosts employment, foreign exchange revenues, and investment in other industries, all of which improve economic performance. In a similar vein, Dritsakis (2004) discovered that tourism contributes to economic growth over the long run, especially in nations with advanced tourism infrastructure. According to Fernando et al. (2013), tourism is essential for increasing infrastructure development, rural employment, and foreign direct investment (FDI) in Sri Lanka. They maintained that Sri Lanka had a competitive advantage in the international travel sector thanks to its distinctive natural and cultural attractions.

A wide range of skill levels can find direct and indirect work possibilities in the labor-intensive tourism industry. According to a study by Chou (2013), jobs generated by tourism have a major role in reducing poverty and fostering regional growth in emerging nations. According to Gunasekara (2020), the tourism industry in Sri Lanka reduces income inequality by generating jobs in both urban and rural areas. The author did, however, highlight issues such as skill mismatches and underemployment in the industry, urging the implementation of focused training initiatives.

One important measure of the performance of the tourist industry is the quantity of foreign visitors. Song et al. (2012) investigated the direct effects of changes in foreign visitor arrivals on GDP growth, particularly in nations that rely heavily on tourism. Silva and Perera (2019) examined the years following the civil war (post-2009) in Sri Lanka and discovered that the spike in foreign visitors resulted in a significant rise in tourism revenue and economic expansion. The authors, however, advised diversification to reduce the risk of global shocks and warned against an excessive reliance on a single source market. The competitiveness of tourism is greatly impacted by the currency rate. By reducing relative travel expenses, exchange rate depreciation can increase a nation's appeal to international travelers (Ghosh et al., 2017). On the other hand, because it creates uncertainty, exchange rate volatility can deter travelers. After investigating this link in Sri Lanka, Bandara and Rathnayake (2020) came to the conclusion that maintaining tourist growth requires a stable exchange rate environment. To reduce currency rate swings and encourage investor trust in the travel industry, they suggested central bank actions.

Numerous studies highlight how important tourism is to the post-crisis economic recovery. Okumus and Karamustafa (2005) noted that because of its worldwide demand elasticity, the tourism sector frequently recovers more quickly than other industries. According to data from the Sri Lanka Tourism Development Authority (SLTDA), the country had a sharp increase in tourists after the war, with numbers almost doubling between 2009 and 2015. However, Fernando and Bandara (2021) emphasized the necessity for robust policies by pointing out the sector's susceptibility to outside shocks like the COVID-19 pandemic and the Easter Sunday assaults (2019). Because it creates revenue and boosts productivity, tourism has a direct effect on GDP and GDP per capita.

According to research by WTTC (2020), tourism contributes more than 10% of the world's GDP, with small, tourist-dependent economies being disproportionately affected. Weerasinghe (2018) discovered a significant relationship between Sri Lanka's GDP per capita and tourism profits, which he attributed to the industry's ability to produce broad economic advantages.

Research on tourism is increasingly focusing on sustainability. Gössling et al. (2002) stressed the significance of striking a balance between the preservation of the environment and culture and the financial gains. De Silva and Jayathilaka (2020) promoted sustainable tourism practices for Sri Lanka, cautioning that uncontrolled tourism may result in cultural deterioration and environmental damage. They suggested community-based tourism and eco-tourism as workable methods for guaranteeing sustained economic growth.

## **Findings**

One of the main pillars of Sri Lanka's economic change since 1995 has been the tourist sector. In addition to creating significant jobs and stabilizing the currency rate, it has increased GDP and GDP per capita. Sri Lanka must prioritize resilience, diversification, and sustainable practices in its tourism development initiatives in order to maintain and optimize these advantages.

## **Further Suggestions**

- Sustainability need to be a major priority in light of the growing worries about over tourism. In order to ensure long-term economic and environmental benefits, future study can examine how Sri Lanka might expand its tourism offers beyond traditional beach and cultural tourism to include eco-tourism, medical tourism, and adventure tourism.
- Researchers could examine the expanding trends in Sri Lankan Niche Tourism, such as wellness, cultural, and heritage travel. Researchers can evaluate how these new economic sectors impact GDP and employment as well as how they contribute to the economy.
- Researchers can explore how digital platforms, social media, and online travel agencies (OTAs) have impacted Sri Lanka's tourism sector. Investigating the role of technology in improving tourism marketing, traveler engagement, and e-commerce could provide valuable insights into future trends.
- Research could be carried to access the adoption of smart tourism technologies such as mobile apps, virtual tours, and AI-driven travel experiences can be a topic for research. Investigate how technology can enhance the tourism experience while improving efficiency in sectors like transportation and hospitality.
- Future studies should look at the ways that tourism boosts other sectors of the economy, such as retail, construction, and agriculture. Researchers can evaluate tourism's wider economic impacts by examining its multiplier effect on various industries.
- Sectoral Linkages: Scholars can also investigate the ways in which tourism influences other services, including banking and insurance, and evaluate how it contributes to the stability and profitability of these sectors.
- Researchers can Examine How Sri Lanka's Tourism industry has been affected by international disasters like the COVID-19 pandemic, the 2004 tsunami, and the Easter Sunday assaults in 2019. Gaining knowledge on how these occurrences have impacted GDP, exchange rates, and visitor arrivals can help determine how resilient the sector is and how best to recover.
- Scholars can investigate how Sri Lanka's Tourist sector handles emergencies and whether laws or plans can lessen the financial effects of such occurrences.
- Research comparing Sri Lanka to other South or Southeast Asian economies that rely heavily on tourism (such as Thailand, the Maldives, and India) may shed light on the ways in which various infrastructure advancements, economic policies, and tourism management techniques affect the sector's resilience and growth.
- Cross-National Impact Analysis could be carried, to find similarities and suggest effective tactics or cautionary stories, researchers may compare Sri Lanka's tourist impact on GDP with that of other economies of a similar size around the world.

- Researching the effects of tourism on Sri Lanka's employment trends, pay, and working conditions might provide valuable information. Researchers ought to concentrate on the age distribution, gender representation, and skill development of the tourist workforce.
- Training and Education: Future studies could examine the effects of tourism-related occupational training and education programs (such as tour guiding and hospitality management) on the employability and income levels of Sri Lankan workers.

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