

Featured Chart 4.1  
**Recent Economic Shocks in Sri Lanka: Uncertainty is the New Normal**



In recent years, the Sri Lankan economy has faced more frequent and intense domestic and external shocks. Whilst some of these shocks have emanated from natural disasters, others were triggered by domestic and global man-made actions. Heightened uncertainties caused by frequent and intense economic shocks affect consumption and savings decisions of households and production and investment decisions of businesses, hindering the growth potential of the country. Further, macro level decision making and policy formulation have become increasingly challenging due to these heightened uncertainties, since policy transmission channels weaken and policy responses become less predictable during economic crises.

The socio-economic impacts of these shocks are multifaceted and can leave lasting scars on the economy. Generally, such shocks disproportionately burden vulnerable segments of the population, thereby exacerbating economic inequalities.

As uncertainty has become the 'new normal', future holds more challenges due to rapidly

evolving technology, increased global conflicts, geopolitical fragmentation, climate change induced natural disasters, transition into renewable energy, increased protectionism and various other shocks.

Based on recent experiences during the pandemic and domestic economic crisis, these shocks can lead to significant macroeconomic instability, including setbacks in economic growth and episodes of high and volatile inflation, particularly when the economy lacks sufficient external and fiscal buffers and limited monetary policy space. Therefore, the buildup of adequate and efficient fiscal and external buffers are paramount to steer the economy through turbulent times. The importance of maintaining adequate buffers became evident during and in the aftermath of *Cyclone Dityah*. In addition, strengthening crisis preparedness and promoting risk sharing mechanisms, such as insurance, can help economic agents mitigate the impacts of climate-related risks. Well-targeted yet sufficiently flexible social safety nets are also vital to cushion the adverse effects of economic shocks on vulnerable groups.



**Major Domestic and External Disturbances (Shocks) Faced by the Sri Lankan Economy in Recent Years**



- External Shocks**
- **2011-12**- Global Oil Price Surge - The intensified sovereign debt crisis in the Euro area and geopolitical uncertainties in some oil producing Middle Eastern and North African countries
  - **2020-21**- COVID-19 pandemic that resulted in prolonged periods of lockdowns, including the closure of airports, seaports and domestic mobility restrictions affected all key economic sectors
  - **2025** - Uncertainties caused by US tariff policy revisions
  - **2026 Q1**- US-Israel-Iran war and geopolitical tensions have created a larger uncertainty with impacts on global trade and supply chain disruptions

- Internal Shocks**
- **2016**- Domestic floods and landslides
  - **2017**- Drought conditions that continued from 2016
  - **2018**- Political instability
  - **2019**- Easter Sunday attack - Tourism sector heavily impacted
  - **2022-23**- Economic Crisis leading to public anxiety and political upheaval
  - **2025**- Weather related disruptions due to Cyclone Dityah