

BOX 9

The Impact of the Easter Sunday Attacks

On 21 April 2019, the day of the Easter Sunday celebrations, three churches located in Negombo, Batticaloa and Colombo and three luxury hotels in Colombo were attacked in a series of coordinated suicide bombings planned by a local militant group that had declared allegiance to a foreign terrorist organisation. More than 250 civilians were killed due to this tragic event including foreign nationals, while more than 500 were estimated to have been injured.

Following the Easter Sunday attacks, the government declared a state of emergency and imposed nightly police curfew for several days. All schools and state universities of the country were closed for two weeks following the incident. The government blocked major social media platforms to prevent the spread of misinformation that could lead to violence among communities. The operations of the Colombo Stock Exchange were also temporarily suspended on 22 April 2019. It took about two weeks after the incident for civilian life and economic activities to show any sign of return to normalcy. Meanwhile, the Central Bank also adopted an accommodative monetary policy stance commencing May 2019, amidst subpar economic growth that was further affected by the Easter Sunday attacks, decelerating private sector credit, muted inflation expectations and inflation outlook.

The series of attacks particularly affected the tourism industry tremendously, while causing negative spillover effects on several other sectors such as air transportation services, domestic transportation, wholesale and retail trade and accommodation, food and beverage service activities, leisure and entertainment, manufacturing of food and beverages and agriculture. The exchange rate also experienced some pressure in the immediate aftermath of the attacks, with withdrawals of foreign investment from the government securities market. The Colombo Stock Exchange also experienced a setback with a fall in price indices and market capitalisation. However, the exact economic impact of the terrorist attacks cannot be quantified, as other major events, such as global economic and financial market developments, adverse weather conditions that prevailed throughout the second half of 2019 and the uncertainty that prevailed until the conclusion of the presidential election in the latter part of the year, also impacted the economic slowdown in the aftermath of the Easter Sunday attacks. Nevertheless, it can be concluded that the attacks impacted the already sluggish economic growth, and largely contributed to the slow growth of 2.3 per cent in 2019.

The fiscal performance deteriorated in 2019, with the poor revenue collection as a result of deceleration in overall economic activity, partly due to the Easter Sunday attacks. In addition, government expenditure is also estimated to have been increased with the implementation of relief packages facilitating the recovery of the affected parties, strengthened security measures, provision of interest subsidies and reconstruction of affected

public infrastructure. However, even after the Easter Sunday attacks, the government of Sri Lanka issued an International Sovereign Bond to the value of US dollars 2 billion in June 2019 and the oversubscription reflected the international investor community's continued support for Sri Lanka and their confidence in the country's long term growth prospects.

According to the estimates of the Sri Lanka Tourism Development Authority (SLTDA), direct and indirect employment in the tourism sector is 4.6 per cent of the total labour force in Sri Lanka. Moreover, tourism earnings as a share of the country's GDP is approximately 4-5 per cent. Following the terrorist attacks, 37 countries, including top most inbound tourist origins of Sri Lanka, issued travel advisories at various levels of risks, though most of which were lifted in subsequent months with the improvement of the security conditions of the country. According to an analysis by ForwardKeys, which forecasts future travel patterns by analysing over 17 million flight booking transactions a day, in the three days immediately after the attacks, cancellations of existing flight bookings surged by 86.2 per cent whilst new bookings declined sharply. Tourist arrivals per day, which averaged around 7,600 during 2019 prior to the attacks, dropped significantly to around 1,700 during the two month period after the attacks. However, Sri Lanka's tourism industry witnessed a speedy recovery during the second half of the year with average arrivals per day increasing to around 6,900 during the last two months of the year. Nevertheless, on a cumulative basis, tourist arrivals declined by 18.0 per cent (year-on-year) to 1,913,702 which led earnings from tourism to decline by 17.7 per cent to US dollars 3,607 million in 2019.

Some of the major tourist destinations around the world have experienced similar terror attacks in recent years. Recent examples are the Paris attacks in November 2015 and the Brussels bombings in March 2016. However, these countries have recovered eventually with timely implementation of appropriate measures. Tourism in Metropolitan France has strongly rebounded since October 2016,¹ less than a year after the terrorist attacks, while the Brussels region also showed signs of recovery since October 2016,² seven months after the terrorist attacks. According to the estimates of the World Travel and Tourism Council, the time taken for destinations to recover from the impact of terrorist attacks is around 13 months, whereas it would take around 27 months to recover from political turmoil. Average recovery times after a pandemic and an environmental disaster are much longer than that of a terrorist attack which are estimated at 21 months and 24 months, respectively.

¹ National Institute of Statistics and Economic Studies, France, 2017.

² Annual Report of the Brussels Tourism Observatory, 2016.

Figure B 9.1
Monthly Tourist Arrivals before and after the
Easter Sunday Attacks



Source: Sri Lanka Tourism Development Authority

Note: Tourist arrivals during the period shaded (in grey) were affected by the outbreak of the COVID-19 pandemic.

Figure B 9.1 depicts the path of recovery in tourist arrivals after the Easter Sunday attacks, in response to the measures taken to revive the industry. Tourist arrivals experienced a drastic drop of 71 per cent (year-on-year) in May 2019. However, tourist arrivals picked up gradually in the following 3 months and demonstrated a dip in September before increasing sharply towards the end of the year, by the beginning of the tourist season. Accordingly, arrivals in the month of November recorded only a decline of 9.5 per cent while this decline further lowered to 4.5 per cent in December. These statistics indicate that Sri Lanka's tourism sector almost completely recovered within 7 months after the terrorist attacks, which is less than the average time of 13 months as estimated by the World Travel and Tourism Council. However, the negative impact of the outbreak of the COVID-19 pandemic on global and domestic tourism will be reflected in the number of tourist arrivals in 2020.

The government of Sri Lanka took several measures to rebuild the tourism industry after the Easter Sunday attacks. Special emphasis was placed on tourism promotion, financial and fiscal support to sectors directly linked to the tourism sector. Accordingly, an economic relief package, including a debt moratorium, was introduced in May 2019, on both capital and interest payments related to credit facilities obtained by registered businesses in the tourism industry. This moratorium which was to be valid until end March 2020 has been extended due to the outbreak of the COVID-19 pandemic. In addition to the debt moratorium, a separate relief package was introduced by the government, in May 2019, focusing mainly on informal sector stakeholders of the tourism sector. Moreover, licensed commercial banks were also permitted to use the funds in *Jaya Isura* loan scheme under the government's Enterprise Sri Lanka programme and the *Saubagya* loan scheme of the Central Bank of Sri Lanka to grant working capital facilities to those who are engaged in the tourism industry. Further, Value Added Tax (VAT) on registered hotels and tour operators was reduced to 7 per cent from 15 per cent for the period of 01 June 2019 to 30 November 2019 while

import duty was removed on security related products. With effect from 01 December 2019, a VAT rate of zero per cent will be charged on supply of services by hotels and similar businesses providing similar services which are registered under the SLTDA, if 60 per cent of the total value of inputs are sourced from local suppliers whereas other businesses will be charged at a rate of 8 per cent. In order to rebuild the brand image of Sri Lanka, Sri Lanka Tourism Promotion Bureau (SLTPB) carried out targeted promotional campaigns, which included organising press trips with several international travel influencers, arranging visits of Travel Associations and holding press conferences in China and India. The SLTPB also launched 15 special promotional packages for reservations made through the travel agent network in India. Routine promotional activities in identified markets were conducted by way of travel and tourism fairs and road shows while also carrying out outdoor advertising campaigns in subway stations abroad. These efforts were complemented by a digital advertising campaign and a television campaign in collaboration with CNN. The subsequent improvement in the security conditions of the country and continued promotional activities, by both private sector and government stakeholders of the tourism industry, contributed to the faster recovery of the tourism sector.

The country's ability to regain the momentum of economic activity after a terror attack or any other crisis situation at a faster pace depends on the availability of robust contingency plans, disaster recovery programmes and risk management protocols. Therefore, being proactive, rather than reactive, is a critical factor in an event of a crisis. In this aspect, aligning law and order authorities, civil society, tourism authorities and the media to face such crises is essential for the success in improving business and tourism resilience. Sri Lanka has, from time to time, proven its ability to withstand many tragic events, including a 30-year armed conflict, devastation by a Tsunami and the Easter Sunday attacks. Despite the gradual recovery, many global vulnerabilities, the latest being the COVID-19 pandemic are bound to impact the country's tourism sector and other economic activities. Therefore, emergency preparedness from all perspectives, including macroeconomic policy, is vital in improving the country's resilience to handle such unforeseen events, thereby minimising their adverse economic and social impact.

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