

Poverty & Equity Brief

October 2024

SRI LANKA

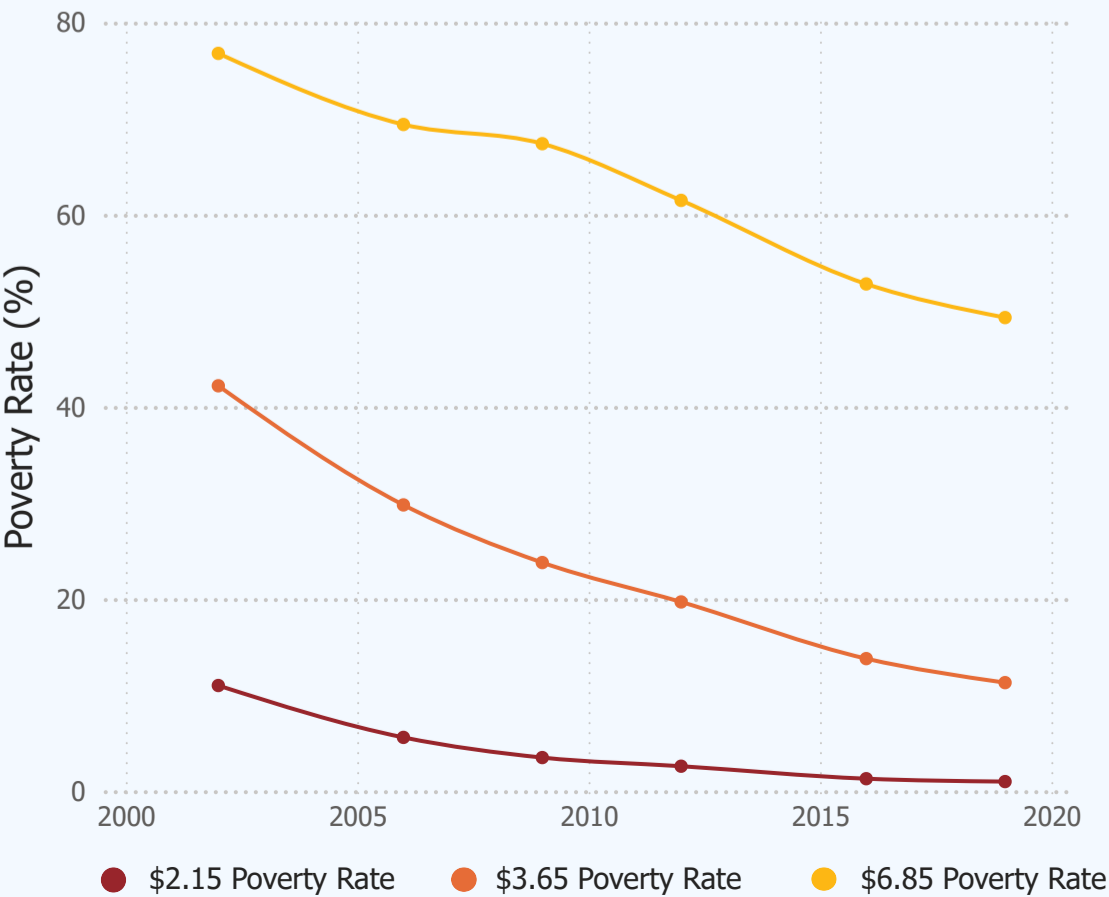
Sri Lanka's economy stabilized after the 2022 crisis, but poverty remains high at 23.4 percent (US\$3.65 per person/day) in 2024. Key reforms—such as utility pricing adjustments, new revenue measures, and debt restructuring—restored macroeconomic stability, reducing inflation and boosting reserves, but posed an additional burden on poorer households. While social protection reforms helped mitigate some regressive impacts, the crisis-induced welfare losses exceeded what social assistance could cover. There is potential for further poverty reduction via equitable fiscal consolidation measures, for example, better targeting of cash transfers and fertilizer subsidies. However, structural reforms to boost the earnings at the bottom of the distribution—for example, via fostering the growth of micro, small, and medium enterprises and removing barriers to female labor force participation—are needed to reestablish sustained economic growth and return to pre-crisis levels of poverty reduction. Under current growth projections, poverty is expected to remain above 20 percent in the medium term, nearly double its 2019 level (11.3 percent).

Multidimensional welfare and labor markets have contracted drastically since 2019. While inflation has eased since peaking at 46.4 percent in 2022, prices remain high, and food insecurity remained at 24 percent in 2023. The effects of the crisis have been felt across the country and affected households not considered vulnerable before 2019. Poverty is projected to have tripled in urban areas. Formal sector wages contracted by 29 percent between 2019 and 2022 and by 28 percent among government employees, posing concerns over public sentiment deterioration in light of potential SOE reforms. In the meantime, the labor market has not recovered, and labor-force participation continued to decline from 49.9 percent in Q1 2023 to 47.1 percent in Q1 2024 nationally and from 32.7 percent to 29.6 percent among women. Improvements in the tourism sector drove a marginal improvement in the share of the population employed in services (from 47.8 percent in Q1 2023 to 49.5 percent in Q1 2024), at the extent of employment in agriculture and industry, which saw a decline between Q1 2023 and Q1 2024.

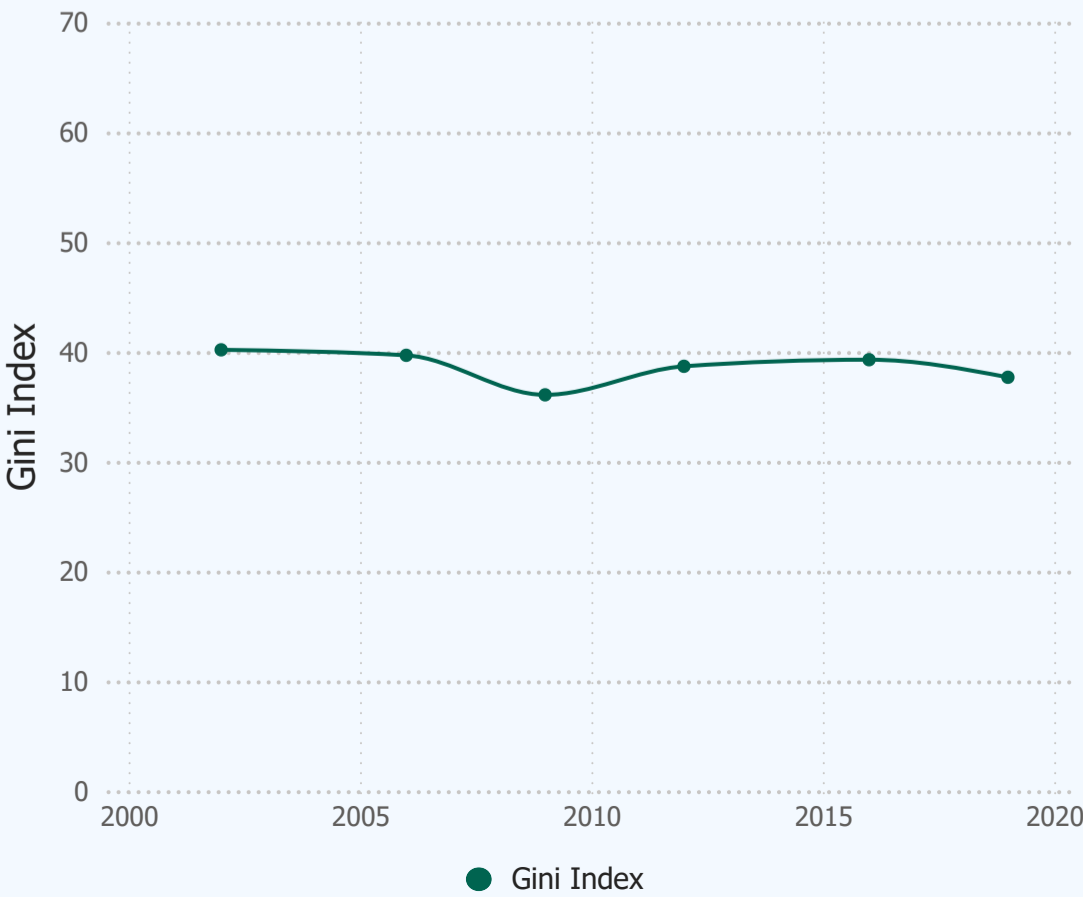
Stable, longer-term growth is also needed to prevent further increases in inequalities. The Gini index has increased from 37.7 in 2019 to 38.5 in 2024 and is expected to remain above pre-crisis levels. 83 percent of households in estate areas were adopting food-based coping strategies in 2023, and more than half of the population in this area lives in monetary poverty. Moreover, human capital deterioration among children is expected to increase inter-generational inequality. 17.3 percent of children under five were underweight in July 2024, with rates as high as 25 percent in poorer districts like Nuwara Eliya. Stunting increased for children at all education levels (grades 1 through 10) between 2022 and 2023.



Poverty Rate



Inequality



Poverty at Different Lines

Poverty Line	Number of Poor (Thousands)	Rate (%)	Year
National Poverty Line	3,038.5	14.3	2019
International Poverty Line (\$2.15/day)	209.0	1.0	2019
Lower Middle Income Class Poverty Line (\$3.65/day)	2,463.0	11.3	2019
Upper Middle Income Class Poverty Line (\$6.85/day)	10,758.8	49.3	2019
Multidimensional Poverty Measure		1.1	2019

Group and Multidimensional Poverty

Poverty by Group	Poverty Rate (%)	Multidimensional Poverty Components	(% of Pop.)
Urban population	4.5	Daily income less than US\$2.15 per person	1.0
Rural population	12.7	At least one school-aged child is not enrolled in school	3.5
Males	11.5	No adult has completed primary education	2.8
Females	11.1	No access to limited-standard drinking water	9.6
0 to 14 years old	13.3	No access to limited-standard sanitation	3.0
15 to 64 years old	10.4	No access to electricity	0.1
65 and older	12.2		
Without education (16+)	25.7		
Primary education (16+)	18.0		
Secondary education (16+)	8.9		
Tertiary/post-secondary education (16+)	1.9		

Note:

Data for the "Poverty by Group" table is derived from a 2019 survey and data for the "Multidimensional Poverty Components" table is derived from a 2019 survey. The rates in the "Poverty by Group" table above are shown at the \$3.65 lower-middle income line.

"N/A" denotes a missing/removed value, while "N/A*" refers to a value which was removed due to having fewer than 30 observations.

Poverty Data & Methodology

Poverty estimates are derived from comparing the international welfare aggregate to the international poverty lines of \$2.15, \$3.65, and \$6.85 per day in 2017 U.S. dollars, converted to Sri Lankan rupees using the 2017 Purchasing Power Parity conversion factor. The international poverty rate is appropriate for cross-country comparisons, while the national poverty line is appropriate for comparisons of different groups within Sri Lanka, or for tracking changes over time of the ability of households to afford a subsistence level of goods. The national poverty line was recently updated and is based on 2013 data, reflecting a basket of goods required to achieve a minimum number of calories based on the prevailing expenditure patterns at that time. The value of the national poverty line is Rs. 6,966 per month in 2019 prices. The new national poverty line is inflated using the National Consumer Price Index, while the international poverty lines are inflated using the Colombo Consumer Price Index (for consistency on time) and the welfare aggregate is deflated with a district-level food price index constructed from unit values of the household survey. The 2012/13, 2016, and 2019 surveys are representative of the entire country, including the former conflict areas in the North and East.

Harmonization

The numbers in this report are based on SARMD. The South Asia Micro Database (SARMD) is a regional database of socio-economic indicators established in 2014 and managed by the SAR Data and Stats Team. It includes household surveys covering 8 countries. It follows the Global Monitoring Database (GMD) Harmonization guidelines, including the construction of the welfare aggregate which is used for the Global Poverty Monitoring. Terms of use of the data adhere to agreements with the original data producers.