The impact of food price inflation on poverty in Sri Lanka

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Abstract: The cost of food is exorbitantly increasing in recent years and price fluctuations have sparked renewed interests on poverty and food security in the country. There are a number of studies conducted in other countries to understand the impact, but this topic is hardly being subjected to rigorous research analysis in Sri Lanka in recent years. Hence the present study aims to examine the long run and short run impact of rise in food prices on poverty level in Sri Lanka using annual time series data for the period of 1990 to 2022 and they were analysed using descriptive methods and econometric analysis. Descriptive analysis indicates that the National Consumer Price Index (food) increased by 30 percent from 2021 to 2022 and rice has the highest contribution to increase food inflation in 2022. Based on the results of the unit root test, Auto Regressive Distributed Lag technique and error correction model were used to analyse the data. Results showed that, population and per capita income have negative and significant impact whereas food price has positive and significant impact on poverty measured in terms of poverty headcount ratio. The population has the highest contribution to reduce poverty level while food inflation has the highest contribution to increase the poverty level. This study further indicates that one percent increase in food prices caused a 31% increase in poverty and one percent increase in income reduces the poverty rate by 59% in the long run. Therefore, this study concludes that food price inflation has a positive and significant impact on poverty in both long-run and short-run.

Keywords: Auto regressive distributed lag model, Error correction model, Food inflation, Per capita income