Sri Lanka After the Crisis: Recovery Is Not the Same as Transformation

Macroeconomic stabilization, household welfare and the unfinished work of institutional reform

IndusValley.org Research Desk 5 September 2026

Direct answer. Sri Lanka's recovery is real but incomplete. Following a cumulative output contraction of about 9.5 percent in 2021–23, real GDP grew 5 percent in 2024. Inflation fell sharply, foreign-exchange availability improved, fiscal revenue rose and restructuring agreements covered most external debt. Yet the World Bank estimated poverty at 24.5 percent in 2024 under its 3.65-dollar 2021-PPP line, about twice the 2019 rate; real wages remained below 2019 and food prices had more than doubled since 2021. Stabilization prevents renewed collapse. Transformation would raise productivity, diversify exports, improve public institutions and create secure work while rebuilding nutrition, education and health. GDP growth from a depressed base cannot by itself show that households have recovered or that the causes of the crisis have been removed.

Contents

1 Analytical distinction 2

2 Crisis and adjustment 2

3 Debt and fiscal capacity 2

4 Distribution and human capital 2

5 Productive transformation 2

6 Institutions and political economy 2

7 Labour and inclusion 2

8 Energy and resilience 3

9 Measurement protocol 3

10 Evidence assessment 3

11 Conclusion 3

1 Analytical distinction

Stabilization restores price, fiscal and external control; recovery raises activity from the trough; transformation changes productivity, institutions, opportunity and resilience. The three can overlap but should not be inferred from one GDP growth rate.

2 Crisis and adjustment

Long-standing fiscal, external and governance weaknesses interacted with shocks and policy errors. The 2022 default and shortages produced a deep contraction. Monetary, fiscal and external adjustment restored availability and low inflation at substantial social cost.

3 Debt and fiscal capacity

Restructuring lowers near-term service and establishes sustainability targets. Durable solvency requires credible revenue, disciplined liabilities, transparent investment and growth in foreign-exchange earnings rather than repeated compression of imports and household demand.

4 Distribution and human capital

Poverty, food costs, real wages, employment, nutrition and access to public services reveal recovery quality. Coping strategies during crisis can create persistent losses in health, learning and labour productivity.

5 Productive transformation

Export diversification, domestic supplier capability, competition, reliable infrastructure and access to finance can raise productivity. Tourism and remittances remain valuable but should not substitute for a broader tradable base.

6 Institutions and political economy

Procurement, tax exemptions, state enterprises, central-bank independence and public financial management determine credibility. Reforms endure when rules are observable, burdens are fair and citizens can hold institutions accountable.

7 Labour and inclusion

Women's participation, youth transitions, skills, migration and worker security belong in the growth model. Employment quantity should be paired with real earnings, formality, hours, safety and career mobility.

8 Energy and resilience

Reducing imported-fuel dependence and climate exposure requires transparent renewable investment, grids, efficiency and resilient public assets. Contingent liabilities and disaster losses should enter fiscal analysis.

9 Measurement protocol

Use dated official series, distinguish growth rates from levels, state poverty lines and price bases, disclose revisions, and combine macroeconomic, household, institutional and environmental indicators.

10 Evidence assessment

Strong	Macroeconomic stability and real growth improved materially in 2024 after the 2022 collapse.
Strong	Household welfare remained substantially below pre-crisis conditions despite the rebound.
Strong	Debt restructuring reduced near-term pressures but left demanding medium-term fiscal and debt targets.
Probable	Governance, export diversification and human-capital protection will determine whether stabilization becomes durable transformation.
Probable	Fairer adjustment and credible social protection can improve both reform legitimacy and long-run productive capacity.
Contested	The optimal pace and composition of taxes, utility pricing, state-enterprise reform and privatization.
Unsupported	The claim that one year of strong GDP growth proves the crisis has ended for households or that its structural causes are resolved.

11 Conclusion

Sri Lanka has achieved a consequential stabilization: growth returned, inflation fell, reserves and revenue improved and debt restructuring advanced. Those gains are necessary and fragile. Transformation will be visible when productivity and diverse exports rise, institutions constrain discretion, public services recover, secure work expands and households regain lost welfare without recreating debt and foreign-exchange vulnerability. The correct test is a dashboard of levels, distribution and resilience, not a single rebound rate.

References

1. World Bank, Sri Lanka Development Update 2025.
2. Central Bank of Sri Lanka, Annual Economic Review 2024.
3. IMF, Sri Lanka Third Review, Country Report 25/56.
4. IMF, Fourth Review under the Extended Fund Facility.
5. IMF, Governance Diagnostic Assessment of Sri Lanka.
6. Sri Lanka Department of Census and Statistics, Labour Force Survey 2024.
7. World Bank, Sri Lanka Public Finance Review.
8. UNDP, Understanding Multidimensional Vulnerabilities in Sri Lanka.
9. Asian Development Bank, Sri Lanka Economic Indicators.

This paper is an evidence review for public scholarship.

Corrections: info@indusvalley.org.