



POLICY BRIEF:

Institute of Policy Studies of Sri Lanka

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Alcohol Tax Reforms for Economic Recovery: The Journey Towards a Healthier Sri Lanka

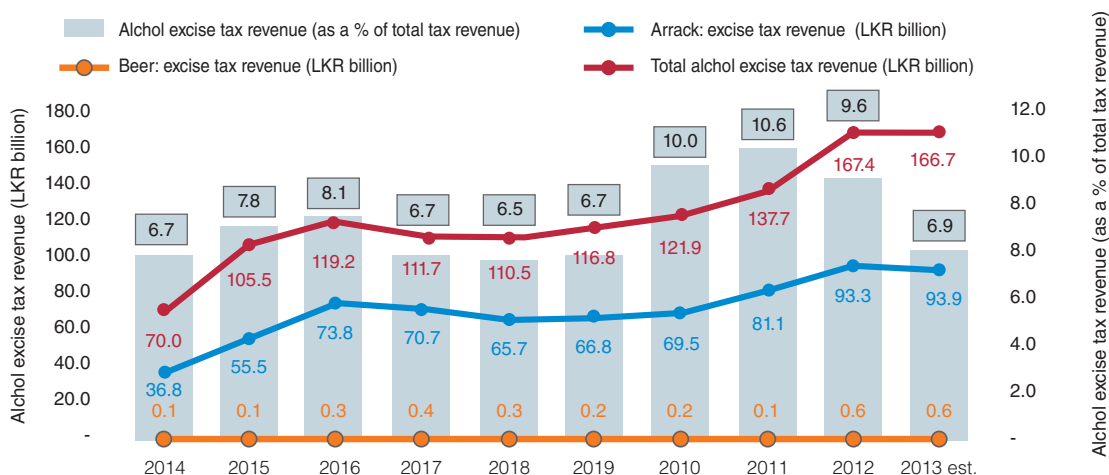
Alcohol: A Deadly Addiction

- Sri Lanka has the second highest alcohol consumption per capita among countries in South Asia.
- Alcohol imposes major health burdens, and excessive alcohol consumption kills around 4,200 Sri Lankans annually.
- Per capita alcohol consumption has increased to 4.1 liters per annum in 2018 from 2.6 litres in 2005.
- Nearly 28 percent of the Sri Lankan population consumes alcohol, but usage is more prevalent among men (48.1 percent) than women (1.2 percent).

Alcohol tax reforms help in achieving the twin objectives of tackling excessive alcohol consumption and supporting economic recovery

- While Sri Lanka's alcohol market consists of 10 different alcohol types, arrack and beer comprise 85 percent of total alcohol production.
- Alcohol is a potential source of tax revenue. During 2018–2023, alcohol excise duty increased by 14 percent per year and generated LKR 137 billion in revenue, which equals about 10 percent of total tax revenue.
- Despite increasing taxes, alcohol production shows an increasing trend, with the exception of a few years. Annual absolute alcohol production was about 39 million litres during the 2018–2023 period. Production has increased by 15 percent to 43 million litres in 2022 from 38 million litres in 2021.
- Retail prices show a significant 82 percent increase for special arrack during 2022 to 2024. Increasing taxes makes alcoholic beverages less affordable, while still generating additional excise tax revenues.

Figure 1. Alcohol Revenue in Sri Lanka (2014–2023)



Sources: Excise Department of Sri Lanka and Ministry of Finance

Effective Alcohol Tax Policy

Increasing excise taxes lowers production, yet generates more revenues.

Table 1. Optimal Alcohol Excise Tax Policy for 2024

Excise tax	Base year	Proposed tax scenarios		
		14%	20%	50%
Production (million litres)	36.7	28.4	27.6	23.7
Arrack	22.5	18.0	17.4	14.5
Beer	14.3	10.4	10.2	9.1
Additional excise tax revenue (LKR million)		3,512	1,839	4,322
Arrack		3,475	1,822	4,255
Beer		37	17	67
Change in excise tax revenue (% change)		3.8	5.7	10.4
Arrack		3.7	5.7	10.3
Beer		7.3	10.7	24.1

Notes: Extracted from IPS study on 'Modelling the Revenue Implications of Alcohol Taxation in Sri Lanka' 2024

The Way Forward

- Alcohol taxation is an effective policy strategy to reduce heavy alcohol consumption. By increasing alcohol excise duty, alcohol production can be reduced while still generating more excise tax revenues. However, revenues are likely to start declining after an 80 percent increase in the tax rate. Hence, increasing tax rates beyond this limit is not beneficial.
- For maximum effectiveness, the tax increases for the next three years should significantly outpace the combination of inflation and income growth annually.