US war on Iran drives up cost of living in Sri Lanka as government prepares new taxes

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The criminal US war against Iran is rapidly worsening the already dire living conditions of Sri Lankan workers and the rural and urban poor. Rising global energy prices and supply disruptions are feeding directly into domestic inflation, driving up the cost of essential goods and services.

At the same time, the government is intensifying its assault on the population by imposing new tax measures in line with International Monetary Fund (IMF) demands to boost state revenue. An amendment to the Value Added Tax (VAT) Bill is to be presented to parliament in the coming weeks and will be effective from July 1, further shifting the burden of the economic crisis onto working people.

According to official figures, headline inflation, measured by the year-on-year change in the Colombo Consumer Price Index, surged to 5.4 percent in April, up from 2.2 percent in March and 1.6 percent in February. This marks a significant break from the relatively low and stable inflation recorded in late 2025.

Food prices have begun to rise again, with food inflation reaching 2.8 percent in April compared to just 0.7 percent in March. Non-food inflation jumped to 6.8 percent from 2.9 percent over the same period. The April cost-of-living index has been largely driven by soaring transport costs due to higher fuel prices.

Sri Lanka's Central Bank (CB) has admitted that these developments are bound up with the "fluid nature" of the "Middle East war" and its global repercussions. While claiming that inflation will remain around its 5 percent target over the medium term, the CB has acknowledged that the outlook is subject to "elevated uncertainty."

A UN World Food Programme (WFP) report on April 22 warned of growing risks facing Sri Lanka. It said the country imports 63 percent of its energy needs while depending on oil for nearly 40 percent of the country's energy supply. With global oil prices reaching a four-year high, Sri Lanka's transport and electricity charges are being pushed up.

Sri Lanka's acute reliance on imported fuel leaves it highly exposed to such external shocks. Fuel prices increased again on May 3 by up to 5 percent, adding to the previous 36 percent hike on March 26 and further pushing up transport and commodity costs across the economy.

The broader economic impact is also being felt in key sectors such as tourism with tourist arrivals falling in April by 22.32 percent compared to a year earlier, following a 26.3 percent drop in March. The decline reflects a general fall in global travel, amid disruptions to aviation routes and increased costs. Sri Lanka's reliance on Middle Eastern transit hubs makes it particularly vulnerable.

The Colombo government is dependent on migrant workers' remittances, largely from the Middle East. While remittances have not been drastically impacted thus far, the Institute of Policy Studies, a government-related think tank has issued warnings about employment cuts and major disruptions if the Iran war escalates.

The WFP has also noted that Sri Lanka imports over 90 percent of its fertiliser requirements. With the Strait of Hormuz handling about 30 percent of globally traded fertiliser, this poses a significant challenge. Shortages and higher fertilizer prices could lead to reduced usage and lower crop yields.

The report noted: "Global food prices have risen sharply, particularly for staples such as wheat, corn, rice and vegetable oil. Sri Lanka, which imported around USD 2.5 billion worth of food in 2025, remains highly sensitive to such increases."

Amid this worsening situation, the government is pressing ahead with regressive tax measures dictated by the IMF. The new VAT bill lowers the registration threshold from 60 million rupees ($US187,000) to 36 million rupees annually, dragging thousands of smaller businesses into the government's widening tax net.

The legislation also imposes the VAT on digital services provided by foreign companies, increases VAT on financial services from 18 percent to 20.5 percent, and introduces harsher enforcement measures, including higher fines and potential imprisonment.

These measures are aimed at extracting greater revenue from an already impoverished population. The official poverty line has more than doubled from 6,966 rupees in 2019 to 16,730 in 2026, underscoring the sharp erosion of living standards. The poverty line is the minimum monthly income needed for food, housing and health care.

President Anura Kumara Dissanayake's Janatha Vimukthi Peramuna/National People's Power (JVP/NPP) government is fully committed to implementing IMF austerity demands. Having signed another Staff-Level Agreement with the IMF in April, this involves further sweeping attacks on living conditions, including increased taxes, such as the new VAT bill, and further privatisation measures.

While the struggles over jobs, wages and conditions that erupted last year and in the early months of this year have demonstrated the growing opposition of the working class, the trade union bureaucracies are silently supporting the government's relentless attacks.

The working class can only effectively develop its fight against the JVP/NPP government's IMF austerity measures and the increasing war burden by building action committees in every workplace and institution, independent of the trade union bureaucracies, and based on a socialist program. These are the only organisations capable of defending jobs, wages, working conditions and the rights of rural masses. Such a struggle must be developed in unity with the international working class and the building of the International Workers Alliance of Rank-and-File Committees.