

4

PRICES AND WAGES

4.1 Overview

The general price level as measured in terms of official consumer price indices, increased at a slow pace during 2020. This was mainly supported by subdued demand for non-essential goods and services associated with the lockdowns and containment measures imposed to mitigate the spread of the COVID-19 pandemic. With a considerable increase at the beginning of the year, prices of items in the Non-food category, where most of the non-essential goods and services are included, exhibited only marginal increases during 2020. Moreover, the absence of periodical price revisions of Airfare, Health and Education had a favourable impact on the behaviour of the general price level in 2020. Meanwhile, the prices of items in the Food category increased noticeably throughout 2020, even in the presence of administrative price control measures introduced by the Government to maintain prices at stable levels. Within the Food category, prices of Volatile food items, which increased at the beginning of the year as a result of supply shortage due to crop damages, instigated by the prolonged rainy conditions prevailed in the latter part of 2019, displayed mixed movement during 2020, alongside the prices of other food items, which exhibited an overall increasing trend. However, the pressure emanating from higher food prices on the general price level was partially moderated by the marginal increase observed in the prices of the items in the Non-food category, which accounts for a larger share in the official price indices. Meanwhile, amidst the adverse impact of the COVID-19 pandemic, even though nominal wages increased across the economy, real wages of formal private sector employees, whose wages are governed by the wage boards and informal private sector employees declined in 2020. This was the first time that the employees in informal private sector experienced a real wage erosion since 2012. However, real wages of public sector employees increased in 2020 with the introduction of a new non-pensionable monthly interim allowance of Rs. 2,500, and the addition of the final tranche of the special allowance and interim allowance to the basic salary.

4.2 Prices

Movements of the General Price Level

In the light of the low demand for non-food items prevailed in local markets, the general price level measured by both Consumer Price Indices (CPIs), namely, the NCPI and CCPI,¹ mostly followed the price movement of the items in the Food category during 2020. Accordingly, the general price level, which increased in January 2020, moved on a declining trend until April 2020 and increased thereafter. During 2020, the behaviour of prices of items in the Food category exhibited mixed movements, while items in the Non-food category showed modest changes, signifying the low demand for non-essential goods and services in the lockdown period. Hence, though prices of items in the Non-food category showed an increasing momentum during January to March, they exhibited broadly a stable behaviour between April and June 2020. However, they increased again from July onwards with increases observed mainly in the sub-categories such as Transport (Bus fare) and Clothing and Footwear amidst the decrease observed in the Health sub-category in August 2020.

Rice, Coconut, Vegetable, Onion and Potato prices made a considerable impact on the behaviour of the Volatile Food² category throughout 2020. Accordingly, prices of items in the Volatile Food category, which increased at the beginning of the year due to crop damages instigated by the prolonged rainy conditions prevailed in the latter part of 2019, moved on a declining trend till May 2020, and followed an

1 The Department of Census and Statistics (DCS), compiles official consumer price indices, namely, the National Consumer Price Index (NCPI, 2013=100) and the Colombo Consumer Price Index (CCPI, 2013=100) on a monthly basis. The NCPI demonstrates the price movements of selected consumer items at the national level, while the CCPI reflects the same among urban households in the Colombo district.

2 Volatile Food includes rice, meat, fresh fish and seafood, coconut, fresh fruits, vegetables, potato, onions and selected condiments.

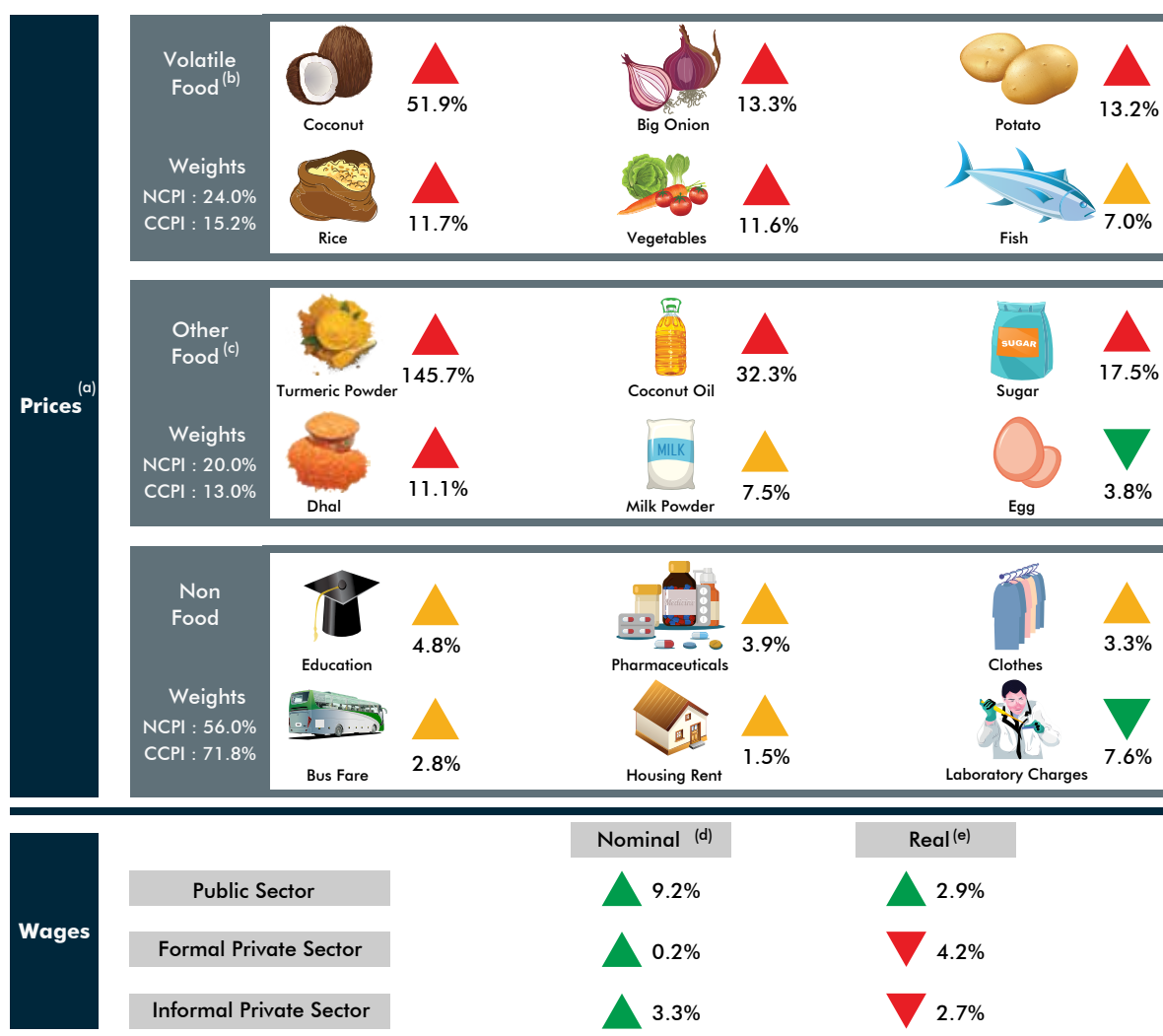
Table 4.1
Maximum Retail Prices (MRPs) of Selected Food Items

Item	Current MRP (Rs.)	MRP Effective Date
Rice		28.05.2020
Samba	98.00	
Nadu	96.00	
Kekulu-Red	93.00	
Kekulu-White	93.00	
Coconut		25.09.2020
Circumference below 12 inches	60.00	
Circumference between 12-13 inches	65.00	
Circumference over 13 inches	70.00	
White Sugar	85.00	10.11.2020
Big Onion	150.00	18.03.2020

Source: Consumer Affairs Authority

overall increasing trend thereafter. Price increases of vegetables, coconut and red onion mainly contributed to the uptick observed in the Volatile Food category in January 2020. The prices of Volatile Food, which increased since April 2019, declined from February to May 2020, in which price declines of rice, vegetables, onion, large fish, and green chilli made a substantial impact on the behaviour of the Volatile Food category between February and April 2020. Meanwhile, in May 2020, prices of coconut, fresh fruit, potato and red onion decreased, whereas increases were observed in items such as rice, vegetables, fresh fish, and meat. The increase observed in the prices of Volatile Food items in June 2020, was mostly due to price increases in items such as rice, vegetables, fresh fish, and chicken. However, this increasing trend reversed in July 2020, attributed to price decreases in rice, coconut, vegetables, and onions. Nevertheless, the prices of items in the Volatile Food category increased afterwards in 2020, owing to the price increases observed in rice, vegetables, coconut, big onion, and potato, while fruit prices also made a substantial impact on the price increases observed in August and September 2020. Though the fish prices mostly behaved as in the recent past, substantial price declines were observed with the identification of the COVID-19 cluster of the Peliyagoda fish

Figure 4.1
Movements of Prices and Wages - 2020



(a) Annual average percentage change of NCPI prices

(b) Volatile Food includes rice, meat, fresh fish and seafood, coconut, fresh fruits, vegetables, potato, onions and selected condiments

(c) Other food include food items excluding Volatile Food items

(d) Annual average percentage change of nominal wages

(e) Annual average percentage change of real wages

market towards the end of October 2020. However, fish prices recovered to some extent in December 2020, with the normalisation of trading activities with the pandemic situation being under control. Moreover, prices of lime and green chilli also made a considerable impact on the price level of Volatile Food items during the year.

In 2020, the Government made a considerable effort to maintain Volatile Food prices at a stable level by way of price controls. With a view to

reducing escalating rice prices, the Maximum Retail Prices (MRPs), which were imposed on 10 April 2020 amounting to Rs. 90 per 1kg each for Samba and Nadu rice and Rs. 85 per 1kg for Kekulu rice, were revised upwards to Rs. 98, Rs. 96 and Rs. 93 per 1kg on Samba, Nadu and Kekulu rice, respectively, with effect from 28 May 2020. Later, maximum wholesale prices of Rs. 94, Rs. 92 and Rs. 89 per 1kg were imposed on Samba, Nadu and Kekulu rice with effect from 04 November 2020 as a further effort to keep

4 retail prices of rice at stable levels. However, towards the latter part of 2020, a supply shortage in Samba rice was observed even with the receipt of the Yala harvest to the market. Despite the efforts made by the Government to keep prices at stable levels, rice prices continuously increased from September onwards, remaining above the respective MRPs. In 2020, prices of coconut made a notable impact on the behaviour of prices of the Volatile Food category. During the year, except in May and July 2020, prices of coconut increased, while remaining above the prices prevailed in the corresponding period of 2019. As a result, MRPs of Rs. 60, Rs. 65 and Rs. 70 were imposed on coconut, of which the circumference is below 12 inches, between 12-13 inches and above 13 inches, respectively, with effect from 25 September 2020. However, coconut prices continuously increased afterwards remaining above the MRPs, highlighting the need to introduce proper measures to manage the gap between the demand and supply, which prevails in the domestic market. During the period from February to April in 2020, big onion prices remained well above the prices that prevailed in the corresponding months since 2014, thereby compelling the Government to impose MRPs of Rs. 190 and Rs.150 per 1kg, with effect from 23 February 2020 and 18 March 2020, respectively to protect consumers from higher prices. Subsequently, reflecting the lower prices in the international market, big onion prices followed a declining trend during the period from April to July 2020. Afterwards, big onion prices increased mainly due to the decline observed in domestic production owing to crop damages and the export ban imposed by India with effect from 15 September 2020. Meanwhile, the Special Commodity Levy (SCL) on imported big onion was increased to Rs. 15 and Rs. 50 per 1kg with effect from 01 May 2020 and 01 August 2020, respectively. However, the Government revised the SCL downwards on imported big onion to

25 cents per 1kg with effect from 14 October 2020, in view of curtailing difficulties that had arisen with the re-emergence of the pandemic. Moreover, the availability of varieties with different qualities from countries like Egypt, Turkey, Pakistan and the Netherlands also contributed to stabilise the big onion prices between November and December of 2020. Furthermore, red onion prices, which recorded its highest in the recent past at the beginning of the year, decreased comparatively between July to September 2020, though the SCL increased to Rs. 50 per 1kg with effect from 22 May 2020. However, prices of red onion increased continuously from October onwards. Remaining above the price levels observed in previous years, the price of potatoes mostly followed a similar movement observed in recent years. Meanwhile, with effect from 22 May 2020 and 15 August 2020, SCL on 1kg of imported potatoes increased to Rs. 50 and Rs. 55, respectively. Accordingly, Volatile Food indices of both CPIs followed an overall increasing trend during 2020, even though the respective increase is lower compared to 2019.

Prices of food items excluding Volatile Food moved on an overall increasing trend in 2020, exerting pressure on the general price level, despite the Government involvement to maintain food prices at a stable level. Intermittent price changes observed in dhal, sugar, coconut oil, egg, rice flour, milk powder, cereal, dried fish, canned fish, and turmeric powder made a notable impact on the price behaviour of this category. Dhal prices, which increased substantially towards the end of 2020, remained high compared to the previous year except in March and April 2020. MRPs of Rs. 65 per 1kg of dhal and Rs. 100 per 425g tin of canned fish, which were imposed with effect from 18 March 2020 as provisions of relief to the consumers during the situation prevailed in the country following the

COVID-19 outbreak, were removed from 30 April 2020. Meanwhile, reflecting a partial impact of the price controls, canned fish prices decreased in March and April 2020. Imported milk powder prices remained unchanged throughout 2020, whereas the price of local milk powder increased from Rs. 345 to Rs. 380 per 400g packet with effect from 28 April 2020 to par with the price of imported milk powder. Reduction of egg prices to Rs. 10 each with effect from 23 March 2020 as a relief measure during the lockdown period resulted in the lowest egg prices for the year during the period from April and May 2020. However, from May to August, egg prices increased continuously, necessitating the decision to decrease the price per egg by Rs. 2 with effect from 07 September 2020. As a result, egg prices decreased from September to November, though it increased again in

December 2020. In order to maintain chicken prices at reasonable levels, the Government imposed MRPs of Rs. 430 and Rs. 500 per 1kg on broiler chicken (with skin) and chicken (skinless), respectively, with effect from 12 March 2020. Even though chicken prices declined accordingly in April 2020, the prices exhibited an increasing trend afterwards during May to September 2020, while showing a marginal decline afterwards. Moreover, the MRP of maize was also brought to Rs. 55 per 1kg, with effect from 12 March 2020, mainly as a measure to control the increase of chicken prices. Prices of turmeric powder which exhibited minor behavioral changes in the past, showed a continuous increasing momentum in 2020 with a significant increase between May to August, due to the restrictions imposed on turmeric powder imports effective from 06 December 2019 with the objective



Figure 4.2
Weekly Retail Prices - Samba



Figure 4.3
Weekly Retail Prices - Coconut (Medium)



Figure 4.4
Weekly Retail Prices - Imported Big Onion

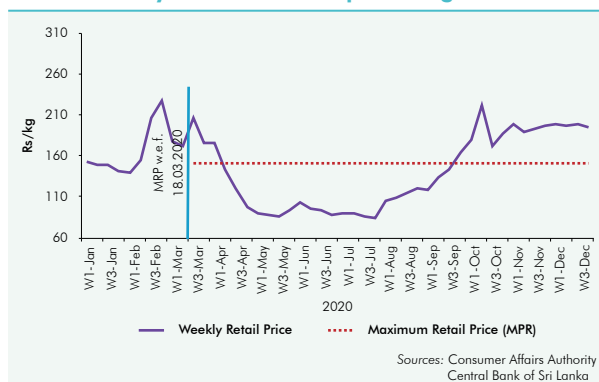
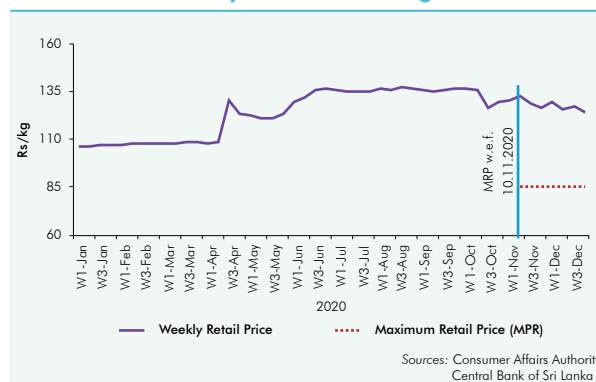


Figure 4.5
Weekly Retail Prices - Sugar



of increasing the local production. Although a MRP of Rs. 750 was imposed on 1kg of turmeric powder with effect from 21 April 2020, its prices spiked in the following months owing to the substantial gap between local supply and demand, resulting in the Government removing the MRP with effect from 24 September 2020. Meanwhile, the prices of wheat flour remained stable during 2020, while prices of rice flour exhibited increasing momentum from May onwards, reflecting higher rice prices prevailed in the market. In line with the higher coconut prices that prevailed in 2020, prices of coconut oil followed an overall increasing trend during the year, while remaining higher compared to previous years. Sugar prices, which increased during the first half of the year, declined marginally afterwards. Considering difficulties that arose with the re-emergence of the COVID-19 pandemic, SCL on several imported items, such as dhal, canned fish and sugar, was revised downwards to 25 cents per 1kg with effect from 14 October 2020. Consequently, Other Food indices of both CPIs showed an increasing trend during 2020.

In contrast to previous years, in 2020, the behaviour of prices of items in the Non-food category remained at a modest level, especially in the first half of the year, emphasising the lower demand for non-essential goods and services that arose with the lock-down conditions and non-adjustment of administered prices. However, in January 2020, due to an increase in house rental prices along with the increase in tuition fees for secondary education, the Non-food category exhibited the highest increase since January 2019. The Health sub-category, which increased in March due to an increase in payments to medical laboratories, decreased in August contributed by the downward price revision of the Full Blood Count (FBC) laboratory test, which occurred in end of July 2020, and remained unchanged thereafter in 2020, with a marginal

increase in December. During the year, Ceylon Petroleum Corporation (CPC) maintained its fuel prices at a constant level. Meanwhile, Lanka IOC (LIOC) reduced its petrol (92 octane) price from Rs. 142 to Rs. 137 per litre from 06 April 2020 but increased it back to the original price on 17 May 2020. However, in the next price revision on 20 May 2020, LIOC reduced petrol (92 octane) price back to Rs. 137, matching the price of the CPC. Further, though the train fares remained unchanged during the year, with the introduction of the COVID-19 transport policy, bus fares were revised from 11 November 2020, considering the risk level. Accordingly, for the routes, where loading passengers was allowed only up to the seating capacity, bus fares were increased by 1.2 times, and for the routes where loading passengers was allowed only up to 50 per cent of the seating capacity, bus fares were increased by 1.5 times of the existing amount. However, reflecting the border protection controls imposed with the pandemic situation, airfare remained unchanged from March 2020 onwards. Likewise, revision of Education fees, which consists of some periodical price increases, was not observed during the year. Meanwhile, no revisions were made to the prices of utilities such as water, electricity, and gas, mainly with the objective of providing relief to both the general public and businesses who were adversely affected by the lockdown conditions associated with the pandemic. Further, communication charges such as, postal, fixed telephone, mobile telephone, internet and satellite TV, were also not revised in 2020. Moreover, prices of arrack, beer and cigarettes remained unchanged in 2020, while prices of areca nuts increased from July to September remaining significantly higher during the second half of 2020 compared to 2019. Accordingly, Non-food indices of both CPIs exhibited only marginal increases during 2020.

Consumer Price Indices

National Consumer Price Index

The NCPI, which recorded 137.0 index points in January, declined to 134.8 index points in April and gradually increased thereafter to 141.2 index points in December 2020. The increase observed in the NCPI in January 2020, before the outbreak of COVID-19, was driven by the increases observed in prices of items in both Food and Non-food categories. Afterwards, the NCPI remained unchanged in February and declined for two consecutive months driven by the price decreases in the Food category. The NCPI demonstrated a reversal of its previous downward trend and increased during the period from April to June, where the prices of items in the Food category remained the sole contributor towards this momentum. The NCPI remained unchanged again in July, as the decline of the prices of items in the Food category was nullified by the increase observed in the prices of items in the Non-food category. Thereafter, NCPI continuously increased for the remainder of 2020. The increases observed from August to November were contributed by the price increases of items in both Food and

Non-food categories with a higher contribution from the Food category. Meanwhile, increase in prices of items in the Food category solely contributed to the increase observed in December 2020 in NCPI.

Colombo Consumer Price Index

The CCPI followed an increasing trend during 2020 from 134.6 index points in January to 138.0 index points in December 2020, while remaining unchanged in February and August. The increase in January 2020 was supported by the movement of the prices of items in both Food and Non-food categories. The CCPI remained unchanged in February and August, due to the movement of Food and Non-food categories setting off each other. Meanwhile, the movement of prices of items in the Food category solely contributed towards the decline observed in March and increases observed thereafter in April and October 2020. Month-on-month increases demonstrated by the CCPI in the remaining months of the year were due to the price increases of the items in both Food and Non-food categories with a higher share from the Food category.

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Figure 4.6
Contribution to Month-on-Month Percentage Change in NCPI - 2020

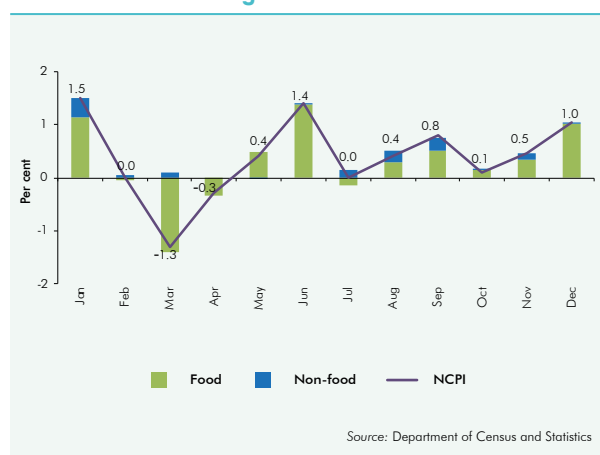
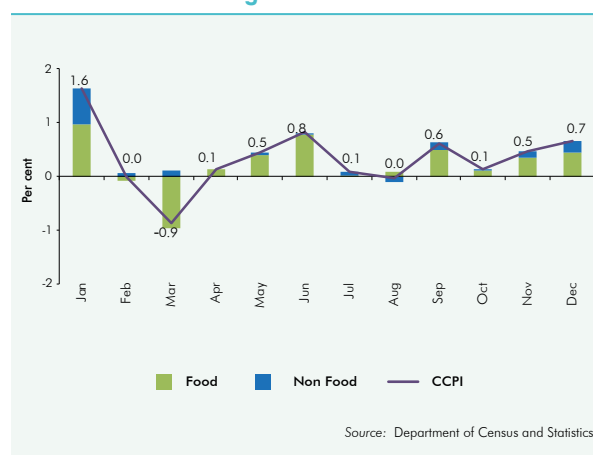


Figure 4.7
Contribution to Month-on-Month Percentage Change in CCPI - 2020



Producer's Price Index (PPI)

The PPI (2013 Q4=100) as measured by the average prices received by domestic producers of goods, which is compiled by the DCS, exhibited an overall increasing trend during 2020 from 144.3 index points in January to 149.2 index points in December 2020. PPI covers the Producer's prices of Agriculture, Manufacturing, and Utilities (Electricity and Water Supply) sectors of the economy. The PPI in the Agriculture sub-index, which recorded 169.8 index points in January, declined in the next three months and gradually increased thereafter to 184.7 index points in June 2020 and recorded 185.1 index points in December 2020. Meanwhile, the PPI in the Manufacturing sub-index reported 133.7 in January and reached 139.9 index points in December 2020, yet recording notable fluctuations in between. The PPI in the Electricity and Water Supply sub-index, which recorded 86.7 index points in January, increased up to March and followed a decreasing trend during April to May and increased thereafter to 92.3 index points in December 2020.

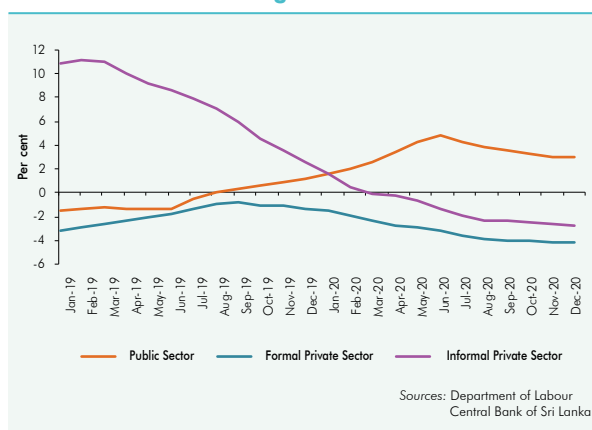
4.3 Wages

In the midst of the adverse impact of the COVID-19 pandemic, real wages of the employees in the formal and informal private sectors showed an erosion whereas the real wages of the public sector employees showed an increase in 2020 compared to the previous year. Nevertheless, the demand pressure arising from wages on the general price level remained subdued during the year.

Private Sector Wages

The formal private sector was adversely affected by the COVID-19 pandemic. Accordingly, some firms had to revise salaries downwards as

Figure 4.8
Annual Average Change in
Real Wage Rate Indices



their cash flows were severely affected with the disruptions to their business activities. Further, a tripartite agreement was reached between the Ministry of Skills Development, Employment and Labour Relations,³ the Employers' Federation of Ceylon and trade unions on paying 50 per cent of the last paid basic salary or Rs. 14,500 per month, whichever was more favourable to the employee, where employees were required to stay at home due to pandemic conditions. However, nominal wages of employees in the formal private sector, as measured by the annual average change in the minimum wage rate index (1978 December=100) of employees whose wages are governed by the wage boards, increased by 0.2 per cent in 2020 compared to 2019. This increase was mainly driven by the increases in minimum wages of workers in the industry and commerce, and services sub-categories. Nevertheless, real wages of employees in the formal private sector decreased by 4.2 per cent in 2020 compared to 2019.

Amidst the containment measures taken to curb the spread of the COVID-19 pandemic, the informal private sector was severely affected

³ The name of the Ministry was changed as Ministry of Labour with effect from 09 August 2020

with the disruptions to their capacity to earn a living. Accordingly, nominal wages of the informal private sector employees decreased in May with the first wave of the COVID-19 pandemic and gradually recovered until September 2020. Thereafter, with the second wave of the pandemic, it decreased again in October 2020 and recovered in November and December 2020. Overall, nominal wages of informal private sector employees, as measured by the annual average change in the informal private sector wage rate index (2012=100), increased by 3.3 per cent in 2020 compared to 2019. Meanwhile, real wages of employees in the informal private sector decreased, by 2.7 per cent in 2020 compared to 2019.

Public Sector Wages

Nominal wages of the public sector employees, as measured by the annual average change in the public sector wage rate index (2016=100), increased by 9.2 per cent in 2020 compared to 2019. This increase was due to the addition of a new non-pensionable monthly interim allowance of Rs. 2,500 with effect from 01 July 2019, and the final tranche of the special allowance and interim allowance to the basic salary, with effect from 01 January 2020. Accordingly, real wages of the public sector employees increased by 2.9 per cent in 2020 compared to last year.

