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Prices and Wages

The general price level, as measured by the official price indices, followed an overall increasing trend during the nine months ending September 2021. Global commodity price hikes and domestic supply side bottlenecks particularly made a considerable impact on domestic food prices. Within the Food category, the major contribution to the increase in the general price level was from the prices of items in the Volatile Food category, which mostly exhibited increases in 2021. Prices of items in the Non-Food category increased during the reference period, yet generated a smaller impact on the general price level, compared to the Food category. Reflecting these developments, the CCPI followed an overall increasing trend from 138.7 index points in January to 144.1 index points in September 2021, and the NCPI, which recorded 142.1 index points in January increased to 147.5 index points by September 2021. Accordingly, headline inflation as measured by the y-o-y change in the CCPI and NCPI followed an overall increasing trend thus far during 2021, remaining at an elevated level, especially towards the latter part of the period under review. Meanwhile, nominal and real wage rate indices of the informal private sector increased during the eight months ending August 2021 compared to the corresponding period of 2020. Further, the nominal and real wage rate indices of the formal private sector employees, whose wages are governed by the wage boards recorded a significant increase owing to the upward revision of the minimum wages of plantation sector workers. In the public sector, nominal wage rate index remained unchanged, while real wage rate index decreased during the eight months ending August 2021 compared to the corresponding period of 2020.

4.1 Prices

Movements in the General Price Level

The general price level, as measured by both CPIs, namely, the CCPI and NCPI,¹ followed an overall increasing trend during the year until September 2021. Both Food and Non-Food categories also exhibited overall increasing trends, although the Non-Food category's impact on the general price level was smaller compared to the Food category. Moreover, global price hikes, production shortages, and logistical bottlenecks made a considerable impact on the general price level.

The general price level followed an overall increasing trend during the period from January to September 2021, mainly driven by Food prices...

Prices of items in the Volatile Food² category have increased thus far during 2021. In January and February 2021, prices of volatile food items increased mainly due to price increases observed in rice, coconut, and vegetables. However, prices of items in the Volatile Food category declined in March and April 2021 owing to declines observed in the prices of coconut, vegetables, and potatoes. The observed downward trend saw a reversal thereafter, with a prominent increase in June, contributed by the price rises observed in rice, vegetables, and fresh fish. Meanwhile, price decreases seen in rice, vegetables, and potatoes mainly contributed to the decline recorded in September 2021. During the year, rice prices increased continuously up to July 2021, including the months, during which the 2020/2021 Maha harvest reached the market. However, in response to the several steps taken by the Government, rice prices decreased in August and September 2021. Furthermore, MRPs of Samba, Nadu, Kekulu White, and Kekulu Red were revised to Rs. 103, Rs. 98, Rs. 95 and Rs. 95 per kg, respectively, w.e.f. 02 September 2021 and remained effective until 29 September 2021, when the gazette notifications on MRPs were rescinded in order to prevent a rice shortage in the market. Vegetable prices demonstrated mixed movements with supply disruptions instigated by travel

restrictions imposed due to the COVID-19 pandemic, limited trading activities in major economic centers, and adverse weather conditions being the major influences. As a result of the overall decreasing trend observed in coconut prices thus far during 2021, the Government rescinded the gazette notification on MRP w.e.f. 18 June 2021. The price of chicken increased considerably during the period under review mainly due to the rising cost of production that resulted from elevated prices of poultry feed, such as maize, and antibiotics. Meanwhile, fish prices increased until September 2021 remaining mostly unaffected by the marine disaster caused by the sunken MV X-Press Pearl cargo ship. Further, prices of potatoes, steadied during the reference period, mainly due to the downward revision to the SCL on imported potatoes from Rs. 55 per kg to Rs. 15 per kg w.e.f. 12 February 2021. However, the same was revised upwards to Rs. 50 per kg w.e.f. 27 April 2021 to discourage imports during the harvesting seasons for the benefit of local farmers in anticipation of a favourable local harvest. Meanwhile, prices of red onion and big onion demonstrated overall declines during the period under review.

Rice, vegetable, fresh fish and coconut prices have made a substantial impact to the behaviour of the Volatile Food category so far during 2021...

Prices of food items excluding Volatile Food increased continuously during the nine months ending September 2021. Accordingly, dhal prices increased continuously during the period remaining above the prices observed in the corresponding period of 2020, mainly due to price increases in the global market. Moreover, a gazette notification was issued to maintain the SCL of Rs. 100 per kg on dried fish w.e.f. 12 August 2021 to encourage local dried fish producers. Sugar prices, which increased between April and August, decreased in September as a result of MRPs of Rs. 122 and Rs. 125 imposed on unpacked and packed white sugar, respectively, w.e.f. 02 September 2021. Meanwhile, the price of imported milk powder which remained unchanged throughout 2020, increased by Rs. 100 per 400g packet w.e.f. 09 October 2021 due to price increase in the global market and higher freight

¹ The Department of Census and Statistics (DCS) compiles the Colombo Consumer Price Index (CCPI, 2013=100) and the National Consumer Price Index (NCPI, 2013=100) on a monthly basis.

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

Table 4.1
Price Revisions in LPG and Fuel in 2021

Item	Unit	Revised Price (Rs.)	Effective Date
LPG			
Litro Gas Lanka Ltd.	9.6kg	1,150.00	25.07.2021
	12.5kg	2,675.00	10.10.2021
Laugfs Gas PLC	12.5kg	1,856.00	12.08.2021
	12.5kg	2,840.00	10.10.2021
Fuel			
Petrol (92 Octane)			
CPC and LIOC	1l	157.00	12.06.2021
LIOC	1l	162.00	22.10.2021
Auto Diesel			
CPC and LIOC	1l	111.00	12.06.2021
LIOC	1l	116.00	22.10.2021
Kerosene			
CPC and LIOC	1l	77.00	12.06.2021

Source: Central Bank of Sri Lanka

charges along with the liberalization of price controls. In line with that, the price of a 400g packet of local milk powder also increased by Rs. 90 w.e.f. 15 October 2021. Moreover, wheat flour price also underwent an upward price revision of Rs. 10 per kg w.e.f. 10 October 2021, resulting in an increase of Rs. 5 per 450g loaf of bread w.e.f. 11 October 2021, in addition to increased prices of other bakery products.

Prices of items in the Non-Food category increased during the period ending September 2021, albeit generating a lesser impact on the general price level compared to the Food category. International school fees and fees to private medical practices and payments to private hospitals increased during the period under review. Further, prices of some prepared food items in the Restaurants and Hotels subcategory recorded increases in March and July 2021. Furthermore, in adherence to rising global LPG prices, both Litro Gas Lanka Ltd and Laugfs Gas PLC significantly increased the price of a LPG cylinder weighing

12.5kg w.e.f. 10 October 2021. These revisions caused upward adjustments in domestic prices of prepared food. Further, domestic petroleum prices, which remained at the same levels for more than a year, were increased, with prices of petrol (92 octane), auto diesel, and kerosene being revised upwards w.e.f. 12 June 2021. However, as opposed to the observed pre-pandemic trends, housing rent remained at stable levels thus far during the year.

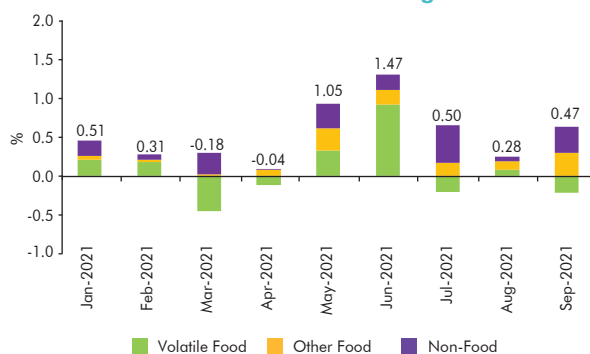
Generating a substantial impact to the prices of Non-Food items, fuel and LPG prices, which remained unchanged from 2020, increased towards the second half of 2021...

Consumer Price Indices

Colombo Consumer Price Index

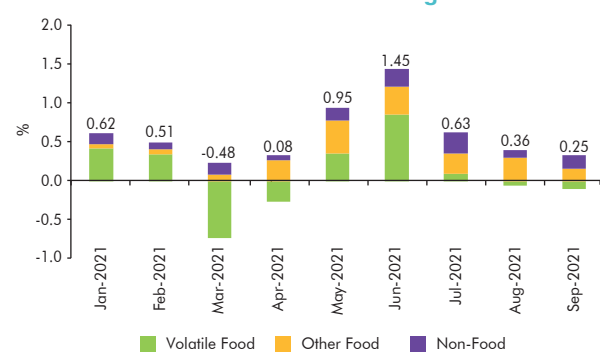
The CCPI followed an overall increasing trend during the period from January to September 2021, from 138.7 index points in January to 144.1 index points in September 2021. The monthly increases observed in January and February 2021 were supported by the movement of the prices of items in both the Food and Non-Food categories. However, monthly declines observed in the CCPI during the following two consecutive months were solely driven by the movement of prices of the Food category. Afterwards, the movement of prices of items in both Food and Non-Food categories contributed towards the increases observed in May and June 2021 with a higher contribution from the Food category. The increase

Figure 4.1
Contribution to m-o-m % Change in CCPI



Sources: Department of Census and Statistics
Central Bank of Sri Lanka

Figure 4.2
Contribution to m-o-m % Change in NCPI



Sources: Department of Census and Statistics
Central Bank of Sri Lanka

in the CCPI observed in July 2021 was contributed entirely by the movement of prices of items in the Non-Food category, yet the increases observed in both August and September 2021 were driven by the prices of items in both Food and Non-Food categories.

“ **Both CCPI and NCPI followed an overall increasing trend during the nine months ending September 2021...** ”

National Consumer Price Index

The NCPI, which recorded 142.1 index points in January, increased continuously to 147.5 index points in September 2021, except in March, which recorded a monthly decline. Movements in prices of both Food and Non-Food categories contributed towards the increase observed in the NCPI in January and February 2021. This increasing trend reversed in March 2021 solely due to price decreases of items in the Food category. However, from April, when the third wave of the COVID-19 pandemic surfaced, the NCPI increased until September 2021 as a result of the increases observed in prices of items in both Food and Non-Food categories.

Headline Inflation

During the nine months ending September 2021, headline inflation as measured by the y-o-y change in the CCPI followed an overall increasing trend, moving to the upper bound of the target range of 4.0-6.0%,

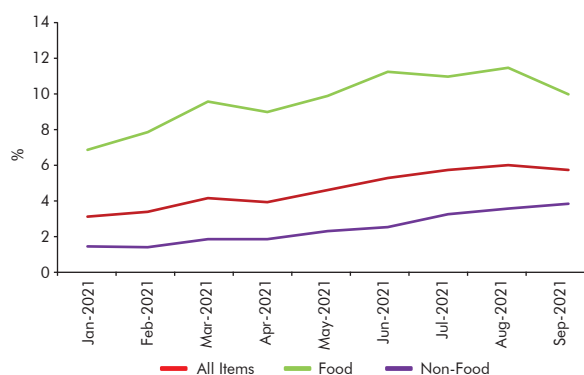
towards the latter part of the period. Accordingly, CCPI based headline inflation which stood at 3.0% in January, increased until March recording 4.1% before declining to 3.9% in April 2021. Afterwards a continuous increase in headline inflation was observed from May to August 2021 recording 4.5% and 6.0%, respectively, amidst the rise of the third wave of COVID-19 pandemic. Subsequently, the y-o-y change in the CCPI reversed its increasing trend and declined to 5.7% in September 2021. Meanwhile, throughout the period, CCPI based food and non-food inflation followed an overall increasing trend while food inflation remained mostly at double-digit levels. Movement of NCPI based headline inflation, remained above CCPI based headline inflation during the nine months ending September 2021. Consequently, y-o-y NCPI inflation that stood at 3.7% in January, increased to 6.8% in July, and reversed its trend and declined to 6.2% by September 2021. NCPI based food and non-food inflation has increased so far in 2021, while food inflation accelerated from 5.9% in January to 10.0% in September 2021.

“ **Headline inflation remained elevated, with food inflation remained mostly at double-digit levels...** ”

4.2 Wages

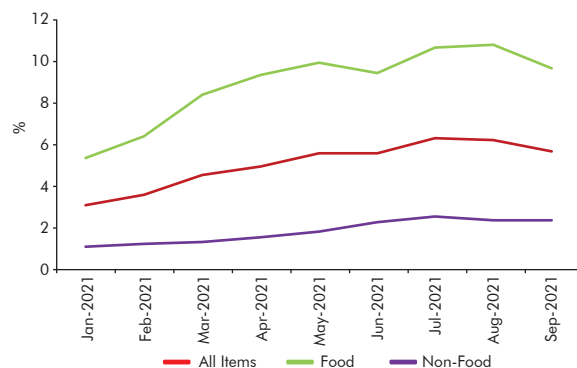
Nominal wages of informal private sector employees, as measured by the informal private sector wage rate index (2012=100), followed an overall increasing trend during the eight months ending August 2021, except for the decline recorded

Figure 4.3
Movement of CCPI based Inflation (y-o-y % Change)



Source: Department of Census and Statistics

Figure 4.4
Movement of NCPI based Inflation (y-o-y % Change)



Source: Department of Census and Statistics

in April 2021 which was led by the decline in wages of small industries. Nominal wage rate index of the informal private sector increased by 5.9% during the eight months ending August 2021 compared to the same period of 2020. In terms of the sub-activities, namely, agriculture, industry and services, nominal wage rate index increased by 3.4%, 6.6% and 6.5%, respectively, during the eight months ending August 2021 compared to the same period of 2020. Meanwhile, real wage rate index of the informal private sector increased marginally by 0.4% during the eight months ending August 2021 compared to the same period of 2020.

Nominal wage rate index of informal private sector displayed an overall increasing trend during the eight months ending August 2021...

Nominal wages of employees in the formal private sector,³ as measured by the minimum wage rate index (1978 December=100) of employees, whose wages are governed by wage boards, increased significantly by 66.0% during the eight months ending August 2021 compared to the same period of 2020. The significant increase was attributed to the increase in the daily wage of tea and rubber plantation workers to Rs. 1,000 w.e.f. 05 March 2021, through respective wage boards for the tea and rubber growing and manufacturing trade. Further, the increase in the

³ Nominal wages of the formal private sector employees, whose wages are governed by the wage boards are measured by the minimum wage rate index (1978 December=100) compiled by the Department of Labour.

minimum monthly salary of the private sector from Rs. 10,000 to Rs. 12,500 and the minimum daily wage from Rs. 400 to Rs. 500, due to the amendment made to the National Minimum Wage of Workers Act, No. 03 of 2016 w.e.f. 16 August 2021 also contributed to this increase. Accordingly, real wage rate index of the formal private sector also increased significantly by 58.6% during the eight months ending August 2021 compared to the corresponding period of the previous year. Meanwhile, the tripartite agreement on paying 50% of the last paid basic salary or Rs. 14,500 per month, whichever was more favourable to the employee, in situations where employees were required to stay at home due to the COVID-19 pandemic, was extended until December 2021 for the tourism sector.

Nominal wage rate index of formal private sector trended upwards during the eight months ending August 2021, especially with the increase in daily wage of plantation workers and the increase in minimum wages...

Nominal wages of public sector employees, as measured by the public sector wage rate index (2016=100), remained unchanged during the eight months ending August 2021 compared to the same period of 2020. On the other hand, public sector employees experienced a real wage erosion of 5.2% during the same period compared to the corresponding period of 2020.

Abbreviations and Acronyms

CCPI	:	Colombo Consumer Price Index	m-o-m	:	month-on-month
CPC	:	Ceylon Petroleum Corporation	MRP	:	Maximum Retail Price
CPI	:	Consumer Price Index	NCPI	:	National Consumer Price Index
DCS	:	Department of Census and Statistics	SCL	:	Special Commodity Levy
LIOC	:	Lanka Indian Oil Company	w.e.f.	:	with effect from
LPG	:	Liquefied Petroleum Gas	y-o-y	:	year-on-year

