



Prices and Wages

The general price level, which increased substantially in the first half of the year moderated during July to September 2022, yet remained elevated. The significant increase observed in the general price level in 2022, was largely attributed to the removal of administered prices, which were maintained at constant levels over a considerable period of time as a relief to the general public. In addition, foreign exchange shortages, higher transportation costs due to frequent upward fuel price revisions, and notable electricity and water tariff revisions made a significant impact on prices. Further, issues relating to the shortage of fertiliser caused the limited availability of food commodities elevating their price levels. Meanwhile, the depreciation of the exchange rate, rising prices of global commodities and higher freight charges also resulted in substantial price increases of imported items. Nevertheless, the Yala harvest reaching markets, the stabilisation of the exchange rate, and the deceleration of prices observed in the global market, led to the moderation of price pressures to some extent in recent months. Despite the easing of price pressures, headline inflation has followed an increasing trend up to September 2022. In the midst of rising inflation, a real wage erosion was observed in terms of both public and private sector wages during the eight months ending August 2022 compared to the corresponding period of 2021, though an increase was recorded in nominal wages. Going forward, it is expected that the improvements in supply conditions and continued containment of the aggregate demand would ease any upward pressures on the general price level thus paving way for the envisaged disinflation path in the period ahead.

4.1 Prices

Prices of Volatile Food¹ items exhibited significant increases during the first half of the year while exhibiting a moderation between July to September 2022. Increase in these prices was mainly attributed to low supply conditions owing to the decline in 2021/2022 Maha harvest led by attempts to shift towards the use of only organic fertiliser and unavailability and higher cost of chemical fertiliser. In addition, an increase in transport costs driven by frequent and substantial fuel price hikes and supply side issues related to adverse weather conditions also exerted a considerable upward pressure on prices of Volatile Food items. Prices of both local and imported rice varieties increased substantially until July 2022 due to lower 2021/2022 Maha harvest combined with issues related to availability of sufficient foreign exchange. In view of protecting consumers from escalating rice prices, the Government imposed MRPs on local rice varieties. Accordingly, MRPs were imposed on local Samba and Nadu, at Rs. 230 per kg and Rs. 220 per kg, respectively, w.e.f. 02 May 2022, and on local Red Raw and White Raw, at Rs. 210 per kg w.e.f. 10 June 2022. Afterwards, prices of local rice varieties moved on a declining trend during the period from August to September 2022 with the receiving of 2022 Yala harvest and prices of imported rice varieties followed a similar trend during the same period owing to low demand instigated by the distribution of imported rice varieties as a donation to low income families. Vegetable prices exhibited an overall increasing trend during the nine months ending September 2022, except for March, July, August and September where price declines were observed due to the harvesting period. In contrast, a notable increase in vegetable prices was observed during the period from April to June 2022, owing to supply chain disruptions caused by fuel shortages, higher transportation costs, adverse weather conditions, and limited availability of agrochemicals. Meanwhile, price of chicken increased continuously during January to September 2022, owing to higher cost of production, shortage of poultry feed, minerals and medical supplements. Further, prices of fresh fish, which were stable until April 2022, increased notably afterwards due to the diminished nature of fishing activities caused by fuel shortages and elevated prices of fuel amid unfavourable weather conditions. However, the rate of increase in fish prices subdued towards the end of referenced period with the easing

of supply shortages related to kerosene. Meanwhile, declining prices of certain commodities in the world market partially supported the easing of elevated levels of prices of essential imported food commodities, such as sugar, dhal, big onion, dried chilli, and potato towards the end of the referenced period. In addition, SCL of Rs. 50 per kg was imposed on big onion w.e.f. 23 September 2022, in order to safeguard the local big onion farmers. As a result, imported big onion prices reversed its downward trend from September end.

Prices of Volatile Food items followed an increasing trend mainly due to low supply conditions and increased transport cost...

Prices of Non-Volatile food and Non-Food items increased substantially during the nine months ending September 2022 mainly due to an increase in prices of imported items yet moderated its increasing rate towards end of the referenced period. Shortage of foreign exchange, increase in global commodity prices and higher freight charges contributed largely to increases in the prices of these goods and services. It is noteworthy that prices of imported food items increased substantially in the domestic market so far during 2022 particularly with the depreciation of the exchange rate. The practice of maintaining the prices of some key imported items, such as wheat flour, bread, milk powder, fuel, LPG, and prices of essential services such as electricity and water tariffs, bus and train fares, telecommunication and postal charges, at stable levels by the Government without major upward revisions as a relief measure to the public, has become almost impossible under the current economic conditions. Subsequently, prices of wheat flour, bread, and milk powder were allowed to be determined by market forces leading to frequent upward price revisions thus far during 2022. Meanwhile, with recent stabilisation observed in the exchange rate, some moderation was observed in prices of imported food items towards end September 2022. However, upward revisions to price of wheat flour led to an increase in price of a 450g loaf of bread by Rs. 30 on three consecutive occasions and by Rs. 20 in its latest upward price revision, bringing price per 450g loaf of bread from Rs. 80 at the beginning of the year to a range of Rs. 170 - Rs. 220 by October 2022. Meanwhile, other bakery products also underwent several price revisions so far in 2022. In addition, in the most recent price revision, wheat flour price was increased by

¹ Volatile Food includes rice, meat, fresh fish and seafood, coconut, fresh fruits, vegetables, potatoes, onions, and selected condiments.

Table 4.1
Administered Price Revisions in Selected
Commodities during the Period from
January to October 2022

Item	Unit	Revised Price (Rs.)	Effective Date
Milk Powder			
Imported			
Anchor	400g	790.00	19.03.2022
	400g	1,020.00	05.04.2022
	400g	1,160.00	16.06.2022
	400g	1,240.00	05.10.2022
Local			
Highland	400g	625.00	12.04.2022
	400g	850.00	23.06.2022
	400g	950.00	05.10.2022
Pelwatte	400g	685.00	19.04.2022
	400g	880.00	01.06.2022
	400g	980.00	05.10.2022
LPG			
Litro Gas Lanka Ltd.	12.5kg	4,860.00	27.04.2022
	12.5kg	4,910.00	11.07.2022
	12.5kg	4,664.00	09.08.2022
	12.5kg	4,551.00	06.09.2022
	12.5kg	4,280.00	06.10.2022
Laugfs Gas PLC	12.5kg	4,199.00	20.03.2022
	12.5kg	6,850.00	05.06.2022
	12.5kg	5,800.00	18.08.2022
	12.5kg	5,300.00	11.10.2022
Fuel			
Petrol (92 Octane)			
LIOC	1l	184.00	07.02.2022
LIOC	1l	204.00	26.02.2022
LIOC	1l	254.00	11.03.2022
CPC	1l	254.00	12.03.2022
LIOC	1l	303.00	26.03.2022
CPC and LIOC	1l	338.00	18.04.2022
CPC and LIOC	1l	420.00	24.05.2022
CPC and LIOC	1l	470.00	26.06.2022
CPC and LIOC	1l	450.00	17.07.2022
CPC and LIOC	1l	410.00	02.10.2022
CPC and LIOC	1l	370.00	17.10.2022
Auto Diesel			
LIOC	1l	124.00	07.02.2022
LIOC	1l	139.00	26.02.2022
LIOC	1l	214.00	11.03.2022
CPC	1l	176.00	12.03.2022
CPC and LIOC	1l	289.00	18.04.2022
CPC and LIOC	1l	400.00	24.05.2022
CPC and LIOC	1l	460.00	26.06.2022
CPC and LIOC	1l	440.00	17.07.2022
CPC and LIOC	1l	430.00	01.08.2022
CPC and LIOC	1l	415.00	17.10.2022
Minimum Bus Fare		17.00	05.01.2022
		20.00	15.03.2022
		27.00	20.04.2022
		32.00	25.05.2022
		40.00	01.07.2022
		38.00	20.07.2022
		34.00	05.08.2022
Minimum Train Fare		20.00	25.07.2022
Electricity – Fixed Charge			
< 60 units	0-30	120.00	10.08.2022
	31-60	240.00	10.08.2022
> 60 units	0-60	-	10.08.2022
	61-90	360.00	10.08.2022
	91-120	960.00	10.08.2022
	121-180	960.00	10.08.2022
	Above 180	1,500.00	10.08.2022

(Contd.)

Table 4.1 (Contd.)
Administered Price Revisions in Selected
Commodities during the Period from
January to October 2022

Item	Unit	Revised Price (Rs.)	Effective Date
Electricity – Unit Charge			
< 60 units	0-30	8.00	10.08.2022
	31-60	10.00	10.08.2022
> 60 units	0-60	16.00	10.08.2022
	61-90	16.00	10.08.2022
	91-120	50.00	10.08.2022
	121-180	50.00	10.08.2022
	Above 180	75.00	10.08.2022
Water - Domestic			
Unit Charge	0-5	20.00	01.09.2022
	6-10	27.00	01.09.2022
	11-15	34.00	01.09.2022
	16-20	68.00	01.09.2022
	21-25	99.00	01.09.2022
	26-30	150.00	01.09.2022
	31-40	179.00	01.09.2022
	41-50	204.00	01.09.2022
	51-75	221.00	01.09.2022
	Above 75	238.00	01.09.2022

Sources: Consumer Affairs Authority
National Transport Commission
National Water Supply and Drainage Board
Central Bank of Sri Lanka

Rs. 13 owing to the imposition of SSCL, yet did not result in rises in prices of bread and bakery products. Moreover, the price of a 400g imported milk powder packet was revised upwards on four occasions, due to price increases in the global market and associated higher freight charges. Further, the price of a 400g local milk powder packet was also revised upwards on several instances owing to higher cost of production, elevated transportation costs, and taxes. Although prices of dhal, white sugar, and dried fish increased substantially during the first half of 2022, their prices eased off during the latter part of the referenced period, mainly owing to reduction of prices of these commodities in the world market. Meanwhile, in order to protect consumers from unreasonable escalation of egg prices, a MRP of Rs. 43 per each was imposed on white eggs w.e.f. 19 August 2022. With the depreciation of the exchange rate, prices of several key items in the Non-Food category increased exponentially, recording their highest prices in the domestic market. Although prices of fuel (CPC), LPG (Litro), and bus fares are still regulated by the Government, prices of the same underwent several upward revisions reflecting their cost including depreciation of the rupee. Accordingly, prices of both petrol (92 Octane) and Auto Diesel underwent several upward price revisions by both CPC and LIOC. It is noteworthy that recent price revisions on fuel by both CPC and LIOC were based on the new pricing formula,

which was approved by the Cabinet. In response to fuel price hikes, fares of school vans, taxis and three-wheelers also underwent upward price revisions on several occasions so far in 2022. However, bus fares were revised downwards on two occasions by 2.23% and 11.14% w.e.f. 20 July 2022 and 05 August 2022, respectively, following consecutive downward revisions in Auto Diesel prices. In the most recent fuel price revision, which came into effect on 17 October 2022, prices of petrol (92 Octane) and Auto Diesel were reduced by Rs. 40 and Rs. 15, respectively. It is noteworthy that train fares underwent an upward price revision nearly after four years, w.e.f. 25 July 2022. Moreover, depicting the impact of the rupee depreciation and import restriction measures on non-urgent imports, prices of vehicle spare parts and vehicle servicing costs increased during the considered period. In addition, the price of an LPG cylinder weighing 12.5kg was revised on several occasions, indicating an overall have increase. As a result, prices of prepared food items have increased continuously so far in 2022. Electricity tariffs which remained unchanged for nearly eight years, were increased substantially by 75% on average w.e.f. 10 August 2022 in order to offset its generation and distribution cost. In addition, water tariffs which were not revised for nearly 10 years, also underwent a notable upward revision w.e.f. 01 September 2022. Household maintenance and equipment recorded a continuous price increase during the nine months ending September 2022 mainly due to rupee depreciation, global commodity price hikes and elevated transportation costs. In addition, housing rent also recorded a marginal increase in April 2022. Moreover, prices of medicine, private medical practice fees, and payments to private hospitals increased substantially during the nine months ending September 2022. Furthermore, telecommunication levy which stood at 11.25% was increased to 15% w.e.f. 01 June 2022. Moreover, VAT was also revised upwards from 8% to 12% w.e.f. 01 June 2022 and to 15% w.e.f. 01 September 2022. Imposition of SSCL w.e.f. 01 October 2022, could incur some upward pressure on prices of items in both Food and Non-Food categories in the coming months.

Prices of Non-Volatile Food and Non-Food items increased substantially amid shortage of foreign exchange, increase in global commodity prices and higher freight charges...

Effects of electricity and water tariff hikes are expected to be reflected on most goods and services, which could further raise the general price level. It is noteworthy that the impact of upward price revisions outweighs the impact of recent downward revisions, thus hampering the expectations of slowing down in fast pacing increasing trend in CPIs.

Consumer Price Indices

Both official CPIs, namely, the CCPI and NCPI² which measure the general price level, moved on an increasing trend so far during the referenced period, yet at a slower rate during the period from July to September 2022.

Both official CPIs moved on an increasing trend during the referenced period...

Colombo Consumer Price Index

The CCPI, which moved on an accelerated pace, moderated towards the end of the nine months ending September 2022, recording at 158.4 index points in January and 244.7 index points in September. The movement of prices of items in both Food and Non-Food categories contributed to monthly increases observed in the period from January to September 2022. It is noteworthy that the movement of CCPI was largely caused by increases observed in prices of items in the Non-Food category except for June 2022, in which the major contribution was from the Food category. When monthly changes are considered, a monthly increase of 12.8% was recorded in June 2022, the highest monthly increase in the recent past of CCPI.

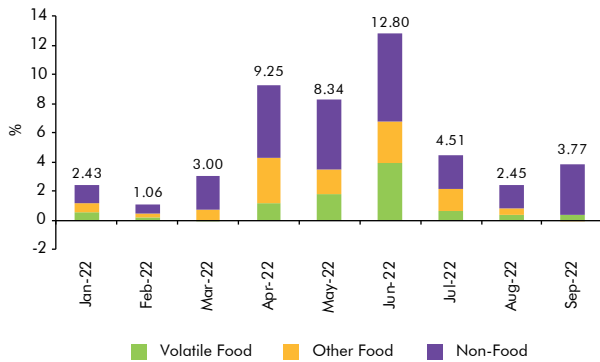
CCPI followed an increasing trend during the nine months ending September 2022, largely contributed by increases in prices in the Non-Food category...

National Consumer Price Index

The NCPI also increased rapidly, slackened its pace to a certain level towards the latter part of the nine months ending September 2022, recording 166.0 index

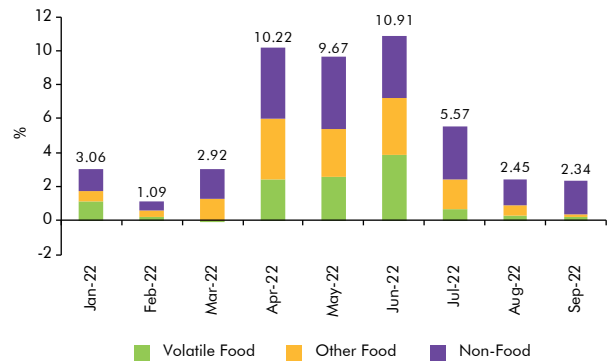
² The Department of Census and Statistics (DCS) compiles the Colombo Consumer Price Index (CCPI, 2013=100) and the National Consumer Price Index (NCPI, 2013=100) on a monthly basis.

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

points in January 2022 and at 256.2 index points in September 2022. Increases recorded in prices of items in both Food and Non-Food categories drove the NCPI during the observed period with a larger contribution originating from prices of the Food category except for March, July, August and September 2022. Furthermore, in June 2022, the NCPI also recorded the highest monthly increase since its initiation.

NCPI followed an increasing trend during the nine months ending September 2022, largely driven by the increases in Food prices...

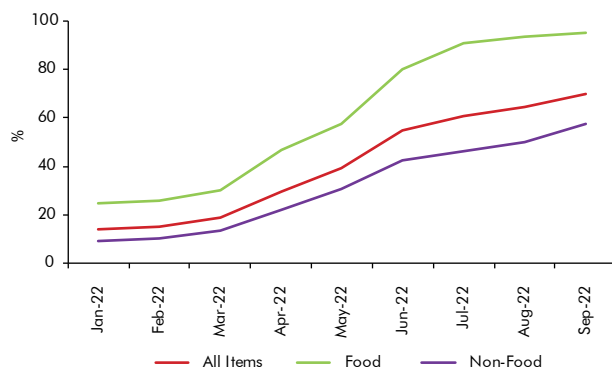
in January, followed an increasing pace recording 69.8% in September 2022. Meanwhile, CCPI-based Food and Non-Food inflation also followed an overall increasing trend throughout the period and recorded 94.9% and 57.6%, respectively, in September 2022. The movement of NCPI-based headline inflation remained above CCPI-based headline inflation during the nine months ending September 2022. Consequently, NCPI-based headline inflation which stood at 16.8% in January, followed an increasing pace recording 73.7% in September 2022. NCPI-based Food and Non-Food inflation also followed an overall increasing trend throughout the period, and recorded 85.8% and 62.8%, respectively, in September 2022.

Headline Inflation

Headline inflation as measured by the y-o-y change in the CCPI accelerated during the nine months ending September 2022. Accordingly, CCPI-based headline inflation which stood at 14.2%

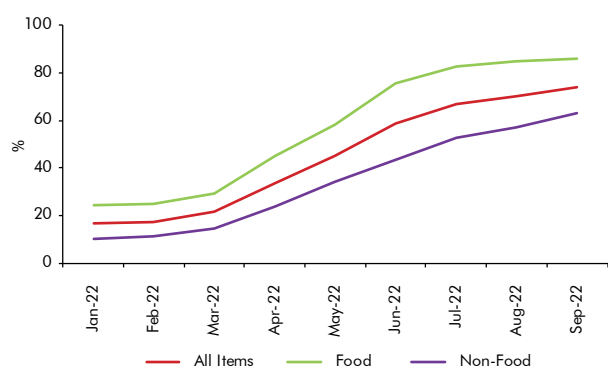
So far during 2022, headline inflation followed an increasing trend...

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



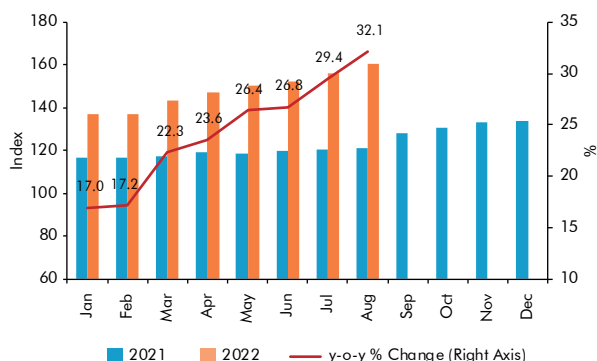
Source: Department of Census and Statistics

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



Source: Department of Census and Statistics

Figure 4.5
Movement of the Informal Private Sector Wage Rate Index (Nominal)



Source: Central Bank of Sri Lanka

4.2 Wages

Nominal wages of informal private sector employees, as measured by the informal private sector wage rate index (2018=100),³ exhibited an overall increasing trend during the eight months ending August 2022. This increase was mainly attributed to the demand for higher wages by the daily wage earners owing to the sharp increase in cost of living. Moreover, supply shortages in utilities, such as LPG, fuel, and electricity from time to time led the activities to be carried out using alternative utilities and at different time intervals. Such conditions also prompted the daily wage earners to call for higher pay. Consequently, the informal private sector wage rate index (2018=100), increased in nominal terms by 24.4% during the eight months ending August 2022, compared to the same period of 2021. In terms of the sub-activities, namely, agriculture, industry and services, the informal private sector wage rate index increased by 25.3%, 23.8% and 25.1%, respectively, during the eight months ending August 2022 compared to the same period of 2021. Even with such a substantial increase in nominal wages, due to the prevailing higher inflationary environment, the informal private sector employees experienced a real wage erosion of 10.6% during the eight months ending August 2022, compared to the same period of the previous year.

Nominal wages of the informal private sector increased substantially, during the eight months ending August 2022...

Nominal wages of the formal private sector exhibited slight increases during the eight months ending August 2022...

Nominal wages of employees in the formal private sector,⁴ as measured by the minimum wage rate index (1978 December=100) of employees, whose wages are governed by wage boards, showed slight increases during the eight months ending August 2022. However, the nominal minimum wage rate index increased by 15.3% during the eight months of 2022 compared to the same period of 2021 due to the statistical effect of the lower base in the first two months of 2021. It is noteworthy that the minimum daily wage of tea and rubber plantation workers was increased 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 minimum monthly salary of the private sector was increased from Rs. 10,000 to Rs. 12,500 and the minimum daily wage was increased from Rs. 400 to Rs. 500 with the amendment introduced to the National Minimum Wage of Workers Act, No. 03 of 2016 w.e.f. 16 August 2022. Meanwhile, the real wage rate index of the formal private sector decreased by 13.9% during the eight months of 2022 compared to the corresponding period of the previous year.

Nominal wages of the public sector increased in January 2022 and remained unchanged thereafter during the eight months ending August 2022...

Nominal wages of public sector employees, as measured by the public sector wage rate index (2016=100), increased after two years in January 2022, and remained unchanged thereafter till August 2022. The increase in January 2022 was attributed to the commencement of payment of a special allowance of Rs. 5,000 across all levels of public sector employees as announced by the Ministry of Finance as a relief measure to the rising cost of living. Moreover, the upward revision made to the salaries of Principals and Teachers in January 2022 with the view of removing the salary anomalies also contributed to this increase in

³ Informal private sector wage rate index was rebased to 2018 (from 2012) in order to capture the recent changes occurred in the informal private sector wages and the employment structure.

⁴ 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.

the wages of the public sector. Accordingly, the public sector wage rate index (2016=100), increased in nominal terms by 16.1% during the eight months ending August 2022, compared to the same period of 2021. However,

amid the higher inflationary environment, public sector employees experienced a real wage erosion of 15.9% during the same period, compared to the corresponding period of 2021.

Abbreviations and Acronyms

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

