

PRICES AND WAGES

4.1 Overview

The general price level as measured by the official consumer price indices followed an overall increasing trend during 2021 with a notable rise in the latter part of the year. Global commodity price hikes of both food and non-food items, higher freight charges, domestic supply side bottlenecks, direct and indirect impacts from various price revisions and demand pressure instigated by successful control of the COVID-19 pandemic made a considerable impact on domestic prices. Within the Food category, a major contribution to the increase in the general price level was from the prices of items in the Volatile Food category. Furthermore, prices of items in the Volatile Food category increased noticeably in the latter part of 2021, mainly due to harvest reduction that arose with the shifting to organic farming practices and higher festive demand due to normalisation of economic activities with the control of the pandemic. Further, prices of food items excluding Volatile Food increased continuously during 2021. Prices of items in the Non-Food category increased continuously during the period at a higher pace towards the end of the year, yet generated a lesser impact on the general price level, compared to the Food category. Reflecting these developments, the Colombo Consumer Price Index (CCPI, 2013=100) followed an overall increasing trend from 138.7 index points in January 2021 to 154.7 index points in December 2021, and the National Consumer Price Index (NCPI, 2013=100), which recorded 142.1 index points in January 2021 increased to 161.0 index points by December 2021. In terms of wages, nominal and real wages of both formal and informal private sector increased in 2021 compared to 2020. Formal private sector wages increased with revisions made to the minimum wages while the increase in informal private sector wages was attributed to higher demand for labour with the normalisation of economic activities due to easing of COVID-19 related travel restrictions and rise in cost of living. With regard to the public sector, the nominal wage rate index remained unchanged during 2020 and 2021, while the real wage rate index decreased in 2021 compared to 2020.

4.2 Prices

Movements in the General Price Level

The general price level, as measured by both Consumer Price Indices (CPIs), namely, the CCPI and NCPI,¹ moved in an overall increasing trend during 2021, mostly attributable to the increases in prices of items in the Food category. During the year, prices of items in the Food category demonstrated an overall increasing trend. Meanwhile, prices of the items in the Non-Food category, which generated a lesser impact on the general price level compared to the Food category also exhibited an overall increasing trend. Accordingly, the general price level demonstrated a continuous increase during 2021 except for March, during which the Food category recorded a decline owing to the favourable supply in the Maha season. Moreover, global commodity price hikes, high freight charges, production shortages, and logistical bottlenecks made a considerable impact on the general price level, including the indirect impacts from various upward price revisions in items of both Food and Non-Food categories, forcing the general price level to increase at a considerable pace towards the end of the year. The increased money incomes of the people due to deficit financing by the banking sector have also contributed to raise prices of limited supply of goods and services. Moreover, COVID-19 related subdued demand tapered off by the end of the year and demand pressure impacted on the general price level.

Prices of items in the Volatile Food² category increased during 2021 with a significant rise during the last two months of the year. Moreover,

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
Imposed during 2021

Item	MRP (Rs. per kg)	MRP Effective Date
Rice		02.09.2021 (a)
Samba	103.00	
Nadu	98.00	
Kekulu White	95.00	
Kekulu Red	95.00	
White Sugar		02.09.2021 (b)
Unpacketed	122.00	
Packeted	125.00	

(a) MRP was removed w.e.f. 29 September 2021

(b) MRP was removed w.e.f. 03 November 2021

Source: Consumer Affairs Authority

issues associated with attempts towards fully shifting to organic farming practices such as limited availability of organic fertiliser, absence of proper guidance and instructions on organic farming, higher prices of existing chemical fertiliser stocks, destruction of cultivation and lower yield made a significant upward pressure on prices of Volatile Food items. In January and February 2021, prices of volatile food items increased mainly due to price increases observed in rice, coconut, green chilli 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, onions, green chilli, and potatoes. The observed downward trend saw a reversal thereafter, with a noticeable increase in June 2021, contributed by the price rises observed in rice, vegetables and fresh fish, while continuing the same trend in July 2021. The direction of the Volatile Food category changed in August 2021 owing to the price decreases observed in rice, coconut, and onions, while the price declines seen in rice and vegetables mainly contributed to the decline recorded in September 2021. Afterwards, the increase observed in October 2021 was attributable to price increases in rice, fruits, big onion, and chicken. Further, increases recorded in the Volatile Food category intensified in November and December 2021, driven by price increases in rice, vegetables, green chilli, chicken, fish, coconut,

Figure 4.1
Movements of Prices and Wages - 2021



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

(b) Other food includes food items excluding Volatile Food items

(c) Change of nominal and real wages indicated refers to the percentage change between average of 2021 and 2020

(d) Wages of the formal private sector employees, whose wages are governed by the wage boards

potato, and onions along with higher consumer demand due to the festive season. Rice prices increased continuously during the period up to July 2021, which included the months during which the 2020/2021 Maha harvest reached the market. However, in response to several measures taken by the Government, rice prices declined in August and September 2021. Furthermore, Maximum Retail Prices (MRPs) of Samba, Nadu, Kekulu White, and

Kekulu Red, which remained unchanged for more than a year, were revised upwards in September 2021, this gazette notification on MRPs was rescinded in the same month in order to prevent a rice shortage in the market. Meanwhile, the Special Commodity Levy (SCL) on imported rice was revised downwards at the beginning of November 2021 in order to balance supply side issues. It was however observed that prices of all local rice varieties rose at

Figure 4.2
Weekly Retail Prices - Rice

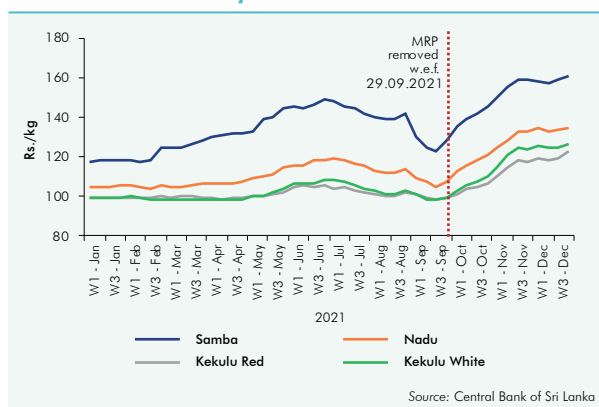


Figure 4.3
Weekly Retail Prices - Vegetables

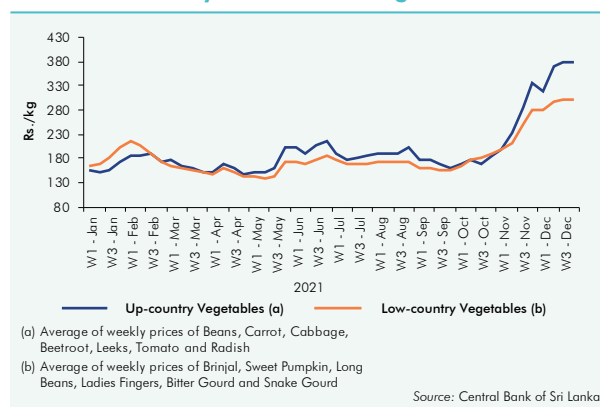
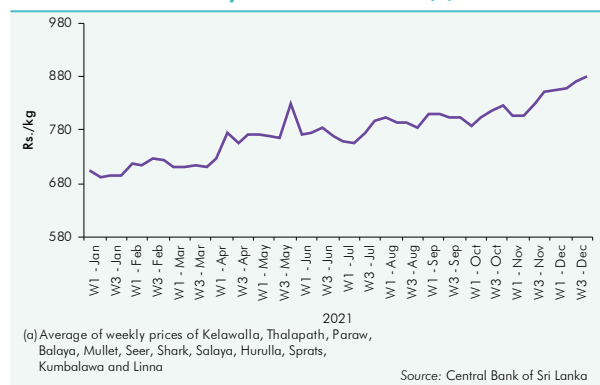


Figure 4.4
Weekly Retail Prices - Coconut (Medium)



Figure 4.5
Weekly Retail Prices - Fish (a)



a rapid pace with the removal of respective MRPs in September 2021, further contributed by higher festive demand during November and December 2021, especially due to normalisation of economic activities with the successful control of the spread of COVID-19. Vegetable prices demonstrated mixed movements with the 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, while the prices escalated towards the last two months of the year mainly owing to supply shortages instigated by scarcities in fertilisers and pesticides and the high festive demand. Coconut prices recorded an overall decrease during 2021 allowing the Government to rescind the gazette notification on MRP with effect from 18 June 2021. However, coconut prices

exhibited an increasing trend during October to December 2021, due to seasonal factors, higher consumption during festive season and lower coconut availability for domestic consumption due to increased external demand for desiccated coconut. The price of chicken increased considerably during the year mainly due to rising cost of production that resulted from elevated prices of poultry feed, such as maize and antibiotics. Meanwhile, prices of both large and small fish varieties increased during 2021. Further, prices of potatoes, of which the SCL underwent several revisions, remained mostly at stable levels during the first nine months of 2021 with a notable increase afterwards. Prices of red onion demonstrated an overall decline during the period, while prices of big onion mostly steadied during the year owing to timely interventions made by the Government, yet demonstrated a continuous

Figure 4.6
Weekly Retail Prices - Potatoes

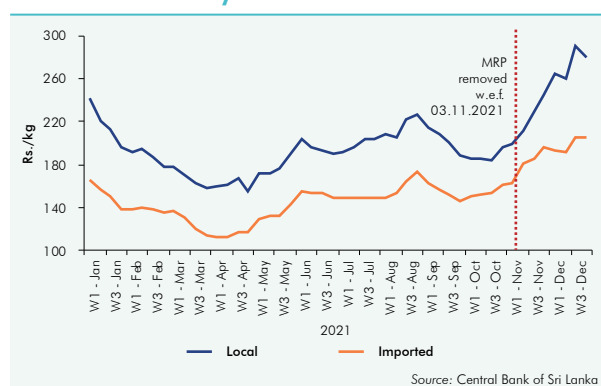
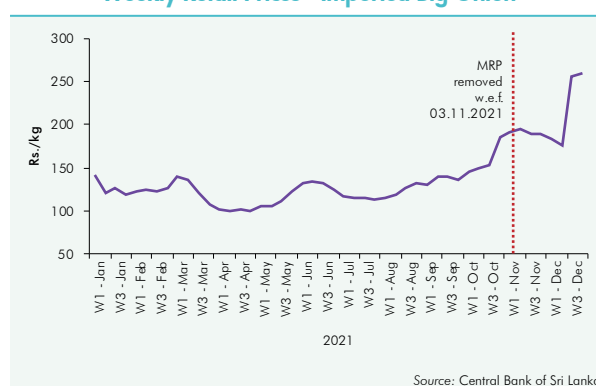


Figure 4.7
Weekly Retail Prices - Imported Big Onion



increasing trend towards the latter part of the year. Meanwhile, gazette notifications that were issued imposing price controls on imported potato and big onion in the Volatile Food category were rescinded with effect from 03 November 2021 with a view of preventing essential food shortage in the market.

Prices of food items excluding Volatile Food increased continuously during 2021.

Accordingly, dhal prices increased continuously during the year remaining above the prices observed in 2020, mainly due to price increases in the global market and higher freight charges. Sugar prices which increased in April 2021 due to festive demand, increased thereafter with a peak in August 2021 as a result of the acquisition of Import Control License (ICL) to import sugar being mandatory. Though the Government's decision

was based on the knowledge that sufficient sugar stocks were already available in the country, private traders issued only a limited stocks to the local market causing an upward price pressure. Moreover, global sugar prices remained higher in 2021 compared to 2020 due to drop in sugar production and higher global demand. As a result, MRPs were imposed on white sugar with effect from 02 September 2021, with the view of reducing sugar prices. However, MRPs imposed on sugar were removed with effect from 03 November 2021, as sugar prices followed an increasing trend from mid-September 2021 onwards. Global milk powder prices increased with the limited production caused by unfavorable weather conditions in Australia and New Zealand and increased global demand with the normalisation of economic activities along with

Figure 4.8
Weekly Retail Prices - Sugar



Figure 4.9
Global Commodity Prices - Sugar

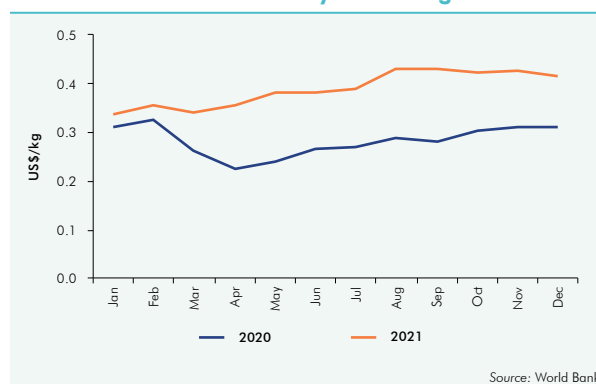
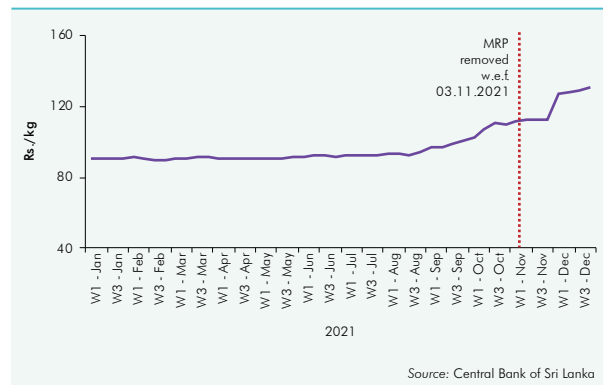


Figure 4.10
Weekly Retail Prices - Dhal



Figure 4.11
Weekly Retail Prices - Wheat Flour



gradual easing of COVID-19 related restrictions. Consequently, the price of imported milk powder, which remained unchanged throughout 2020, experienced an upward price revision in October 2021 due to price increases in the global market, higher freight charges and removal of price controls. A subsequent price increase in local milk powder also occurred with effect from 15 October 2021. Afterwards, imported milk powder underwent another upward price revision towards the end of 2021. Meanwhile, a gazette notification was issued to maintain the SCL of Rs. 100 per kg on dried fish with effect from

12 August 2021 to encourage local dried fish producers. Moreover, wheat flour price also underwent an upward price revision of Rs. 10 per kg with effect from 10 October 2021, resulting in an increase of Rs. 5 per 450g loaf of bread with effect from 11 October 2021, in addition to increases in prices of other bakery products such as buns and cakes. Further, another upward price revision was made on wheat flour causing a consequent upward revision in 450g loaf of bread by Rs. 10 with effect from 29 November 2021. Later, it was announced that the price controls imposed on all bakery products including bread were removed with effect from 21 December 2021 with the intention of allowing their prices to be determined by the respective input cost and other market conditions. It is noteworthy that gazette notifications that were issued imposing price controls on several essential commodity items, namely, white sugar, dhal, chicken, canned fish, wheat flour, green gram, gram, dried fish, maize, and imported milk powder were rescinded with effect from 03 November 2021.

Table 4.2
Special Commodity Levies (SCLs) of Selected Food
Items Imposed during 2021

Item	SCL (Rs. per kg)	SCL Effective Date
Imported Rice		
Samba	65.00	11.10.2021
	0.25	02.11.2021
Nadu	65.00	11.10.2021
	0.25	02.11.2021
Kekulu White	65.00	11.10.2021
	0.25	02.11.2021
Kekulu Red	65.00	11.10.2021
	0.25	02.11.2021
Imported Potato	15.00	12.02.2021
	50.00	27.04.2021
	20.00	01.01.2022
Imported Big Onion	0.25	14.01.2021
	40.00	08.09.2021
	10.00	01.01.2022
Dhal		
Whole	0.25	14.01.2021
Split	0.25	14.01.2021
Red Onion	50.00	18.05.2021
Sprats	100.00	12.02.2021
Dried Fish	100.00	12.02.2021

Source: Ministry of Finance

Prices of items in the Non-Food category increased continuously during 2021 at a higher pace towards the end of the year, albeit generating a lesser impact on the general price level compared to the Food category. Global crude oil prices increased in 2021 as demand outpaced supply due to increasing

Figure 4.12
Global Commodity Prices - Crude Oil

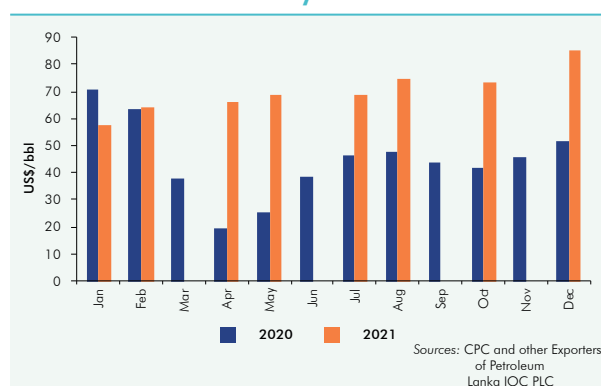
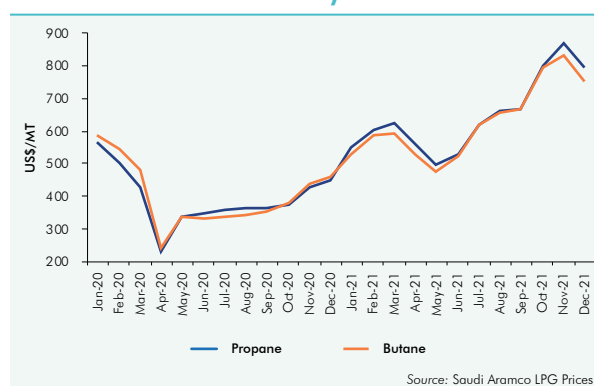


Figure 4.13
Global Commodity Prices - LPG



COVID-19 vaccination rates, relaxing pandemic related restrictions and normalisation of economic activities. This was reflected in the import price of crude oil,³ which increased by 64.6% in December 2021 compared to December 2020. As a result, domestic prices of petrol (92 octane), auto diesel, and kerosene were increased twice in 2021 causing additional indirect price pressure on the general price level. In addition, prices of vehicle

3 Ceylon Petroleum Corporation and other exporters of petroleum, Lanka IOC PLC.

Table 4.3
Administered Price Revisions to
Selected Commodities in 2021

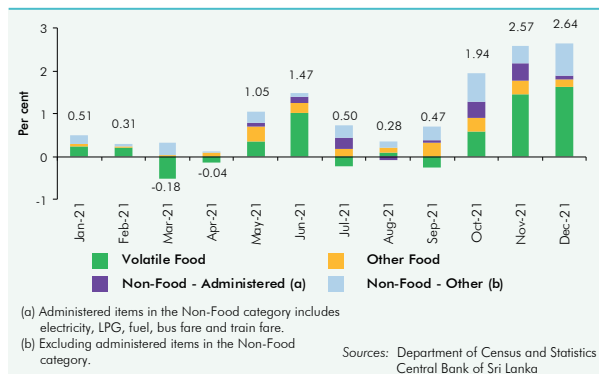
Item	Unit	Revised Price (Rs.)	Effective Date
Milk Powder Imported	400g	480.00	09.10.2021
	400g	540.00	31.12.2021
Local	400g	470.00	15.10.2021
Wheat Flour Prima Ltd.	1kg	97.00	10.10.2021
	1kg	114.50	27.11.2021
Serendib Company	1kg	97.00	10.10.2021
	1kg	114.50	29.11.2021
LPG			
Litro Gas Lanka Ltd.	9.6kg	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	l	157.00	12.06.2021
LIOC	l	162.00	22.10.2021
CPC and LIOC	l	177.00	21.12.2021
Auto Diesel			
CPC and LIOC	l	111.00	12.06.2021
LIOC	l	116.00	22.10.2021
CPC and LIOC	l	121.00	21.12.2021
Kerosene			
CPC	l	77.00	12.06.2021
CPC	l	87.00	21.12.2021

Sources: Consumer Affairs Authority
Central Bank of Sri Lanka

spare parts, vehicle servicing costs and taxi fares increased during the year. Further, prices of some prepared food items in the Restaurants and Hotels subcategory recorded increases on several occasions in 2021. This was partially caused by the significant upward price revision in a Liquid Petroleum Gas (LPG) cylinder weighing 12.5kg with effect from 10 October 2021 by both Litro Gas Lanka Ltd and Laugfs Gas PLC due to rising global LPG prices. It is noteworthy that LPG prices,⁴ i.e., Propane and Butane, increased by 76.6% and 63.0% in December 2021, respectively, in the global market, compared to December 2020. In addition to revisions to LPG prices, increased food prices also played a major role in upward adjustments in domestic prices of prepared food. The Education subcategory, which remained at constant levels mostly during the year, increased from September 2021 onwards due to increases observed in international school fees and tuition fees for secondary education. Prices of private medical practices, payments to private hospitals/medical laboratories and medical/pharmacy products exhibited intermittent revisions resulting in continuous increases in the Health subcategory from April onwards. However, the increase observed in housing rent in October 2021 was marginal compared to the observed pre-pandemic trends, while the cost of household

4 Saudi Aramco LPG Prices.

Figure 4.14
Contribution to Month-on-Month Percentage
Change in CCPI - 2021



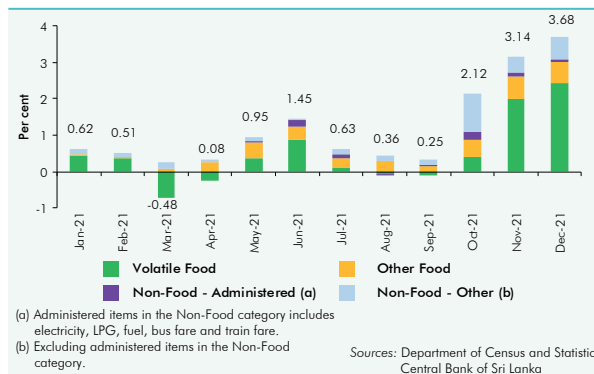
maintenance and equipment increased noticeably from September 2021 onwards. Meanwhile, prices of clothing and footwear, which remained mostly at constant levels during 2020 increased continuously in 2021 at a higher rate from October onwards.

Consumer Price Indices

Colombo Consumer Price Index

The CCPI accelerated from 138.7 index points in January 2021 to 154.7 index points in December 2021. Monthly increases observed in January and February 2021 were supported by the movement of prices of items in both Food and Non-Food categories. However, monthly declines observed in the CCPI during March and April 2021 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 in the CCPI observed in July 2021 was entirely caused 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. Similarly, prices of items in both Food and

Figure 4.15
Contribution to Month-on-Month Percentage
Change in NCPI - 2021



Non-Food categories contributed towards the notable monthly increases observed during the period from October to December 2021, with a substantial share originating from the Food category.

National Consumer Price Index

The NCPI, which recorded 142.1 index points in January 2021, increased continuously to 161.0 index points in December 2021, except in March 2021, which recorded a monthly decline. Movements in prices of the Food category mainly 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 December 2021 as a result of the increases observed in prices of items in both Food and Non-Food categories; yet the considerable contributions were from the Food category except for September and October 2021, with the major influencer being the Non-Food category. While supply shortages of food items raised their prices, the increased money incomes of certain sectors of the population also contributed to further increases of those prices.

Producer's Price Index (PPI)

The PPI as measured by the average prices received by domestic producers of goods and services in Agriculture, Manufacturing, and Utilities sectors was rebased to 2018 Q4 from 2013 Q4 in November 2021 by its compiler, the Department of Census and Statistics. Accordingly, the weights and prices in the rebased PPI were updated to reflect the current economic trends. Further, several new items were added, and some items were removed from both Agriculture and Manufacturing sub-sectors, in addition to expanding the geographical coverage of the Manufacturing sub-sector. The PPI (2018 Q4=100) exhibited an overall increasing trend during 2021 from 116.0 index points in January to 133.7 index points in December 2021. The PPI in the Agriculture sub-sector recorded 134.0 index points in January 2021, remained at comparatively stable levels and increased continuously in the last five months of the year, reaching 161.7 index points in December 2021. Meanwhile, the PPI in the Manufacturing sub-sector reported 113.9 index points and 131.4 index points in January and December 2021, respectively, recording monthly increases mostly during the year. The PPI in the Utility (Electricity, Gas, Steam and Air conditioning supply and Water collection, treatment and supply) sub-sector, which recorded 100.1 index points in January 2021, recorded notable fluctuations during the first four months and steadied afterwards throughout the year reaching 102.5 index points in December 2021.

4.3 Wages

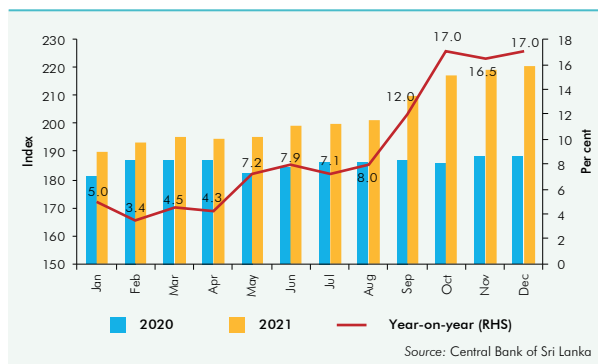
Real wages of employees in the formal and informal private sectors showed increases while the real wages of public sector employees showed an erosion in 2021 compared to the previous year. Nominal

wages also showed an increase in terms of employees in the private sector while it remained unchanged for the employees in the public sector during 2021 compared to the previous year. The repercussions of the COVID-19 pandemic, such as travel restrictions and contraction in economic activities, negatively impacted the growth of wages in 2021. On the other hand, normalisation of economic activities with the successful roll-out of the COVID-19 vaccination programme and the decision to increase the minimum wages of employees in the formal private sector had a positive impact especially on formal and informal private sector wages.

Private Sector 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 2021. The nominal wage rate index recorded moderate increases during 2021 except a slight decline in April 2021 and sharp spikes recorded in both September and October 2021. The decline in April was due to the decrease observed in wages of small industry activities whereas, the sharp increases observed in September and October 2021 were driven by all sub-activities: agriculture, industry, and services. With these developments, the nominal wage rate index of the informal private sector increased by 9.2% in 2021 compared to 2020. Meanwhile, nominal wages of agriculture increased by 6.4%, industry increased by 9.7%, and services increased by 10.0% in 2021 compared to 2020. Normalisation of economic activities with the ease of COVID-19 related travel restrictions and the nationwide vaccination programme paved the way for the increase in informal sector wages. Moreover, the increase in labour demand caused by the shift

Figure 4.16
Movement of the Informal Private Sector Wage Rate Index during 2021 (Nominal)



of labour between industries as reflected by the employment numbers, also caused some increases in respective wages. Moreover, the rise in cost of living also contributed to the increase in informal sector wages, especially towards the latter part of the year. Meanwhile, the real wage rate index of the informal private sector increased by 2.0% in 2021 compared to 2020.

Nominal wages of employees in the formal private sector,⁵ as measured by the minimum wage rate index (1978 December=100) of employees, whose wages are governed by wage boards, increased significantly by 74.4% in 2021 compared to 2020. This significant increase was caused by the increase in the daily wage of tea and rubber plantation workers to Rs. 1,000 with effect from 05 March 2021, through respective wage boards for the tea and rubber growing and manufacturing trade. Further, the

⁵ 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.

increase in the minimum monthly salary of the private sector from Rs. 10,000 to Rs. 12,500 and in 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 with effect from 16 August 2021 also contributed to this increase. Accordingly, the real wage rate index of the formal private sector also increased significantly by 64.3% in 2021 compared to 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.

Public Sector Wages

Nominal wages of public sector employees, as measured by the public sector wage rate index (2016=100), remained unchanged during 2021 compared to the previous year. On the other hand, public sector employees experienced a real wage erosion of 6.4% during 2021 compared to 2020. The upward revisions made to the salary scales of Sri Lanka Principals' Service, Sri Lanka Teacher Advisors' Service and Sri Lanka Teachers' Service to remove the salary anomalies of the Teachers and Principals and the special allowance of Rs. 5,000 as announced by the Ministry of Finance, both effective from January 2022, will have a positive impact in terms of public sector wages.