

PRICES AND WAGES

4.1 Overview

The general price level as measured by the official consumer price indices recorded an unprecedented increase throughout 2022 owing to adverse supply shocks emanated from both domestic and global fronts, sharp depreciation of the Sri Lanka rupee against the US dollar and lagged impact of monetary accommodation during the past few years. Nevertheless, the rate of increase of price levels moderated towards the end of the year following the tight monetary policy stance pursued by the Central Bank and easing of supply conditions. The decline in agriculture production caused by the limited availability and high prices of inputs, and interruptions to the distribution network due to fuel shortages led the prices of domestically produced food items to increase substantially. Meanwhile, the increase in global commodity prices, high freight charges and most notably, the sharp depreciation of the Sri Lanka rupee contributed to considerable upshifts in the prices of both imported Food and Non-food items exerting significant upward pressure on the general price level. Moreover, the cost reflective revisions to administered prices and upward revisions to value added tax (VAT) and the introduction of the social security contribution levy (SSCL) also augmented the price increases in both Food and Non-food categories. However, these adverse developments were mostly subsided towards the end of the year with favourable developments in both the domestic and international markets. Continuation of the tight monetary policy measures curtailed the demand driven inflationary pressures, while the improved availability of inputs boosted domestic supply, thereby decelerating the pace of increase in the general price level. The easing of commodity prices in the global market amidst the stability in the exchange rate in response to the market guidance provided by the Central Bank for the interbank foreign exchange market moderated the prices of imported commodities further lessening the pressure on the general price level towards the latter part of the year. Reflecting these developments, headline inflation based on both Colombo Consumer Price Index (CCPI, 2013=100) and National Consumer Price Index (NCPI, 2013=100) peaked in September 2022 and embarked on a disinflation path. The producer price inflation based on the Producer Price Index (PPI, 2018 Q4=100) increased until August 2022 and declined towards the end of the year. In terms of wages, increases in nominal wages were observed in formal and informal private

sectors and the public sector during 2022. The nominal increases were due to the revision of minimum wages of employees in the formal private sector, higher wages demanded by the informal private sector amid the rising cost of living and the special allowance given for all public sector employees. However, their real wages eroded due to a less than full adjustment of wages to rising prices averting a wage price spiral in the economy.

4.2 Prices

Movements in the General Price Level

The general price level, as measured by both Consumer Price Indices (CPIs), namely, the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI),¹ moved in a continuous increasing trend during 2022 exhibiting a sharp acceleration between March and September 2022, yet moderated towards the end of the year in line with subdued aggregate demand pressures mainly resulted from tight monetary policy measures and improvements in supply conditions. Movements of prices of items in both Food and Non-food categories were perceptive to adverse economic conditions that prevailed during 2022, i.e., substantial weakening of the domestic agriculture sector, notable depreciation of the Sri Lanka rupee, insufficient availability of foreign currency in the domestic market, elevated commodity prices in the world market, fuel shortages and higher fuel costs, and higher freight charges. Meanwhile, adopting market based pricing formulas for certain items, upward price revisions to administered commodities, and increases in various taxes also contributed towards the increases in general price level. However, upward pressure on food prices exerted by issues related to limited availability of fertiliser moderated to some extent owing to improvements in supply

conditions, while the stabilisation of the exchange rate observed with the Central Bank guidance for the interbank foreign exchange market contributed towards easing of prices of imported items in both Food and Non-food categories towards the latter part of 2022.

Prices of items in the Food category increased sharply during January-September 2022 and followed a slight decreasing trend afterwards. Meanwhile, prices of both Volatile Food² and other food items³ contributed to the movement of the prices in the Food category during 2022. Increases observed in prices of domestically produced food items were mainly attributed to low supply conditions that arose due to the decline in the 2021/2022 Maha harvest mainly led by the limited availability and very high market prices of chemical fertiliser. Later, although the Government made attempts to adopt usual cultivating practices using chemical fertiliser, it was unable to elevate the Yala harvest to its usual yield. Meanwhile, increases in transport costs driven by frequent and substantial fuel price hikes and supply side issues related to adverse weather conditions also exerted considerable upward pressure on domestic food prices. Prices of both local and imported rice varieties increased substantially until July 2022 necessitating the Government to impose Maximum Retail Prices (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, with effect from (w.e.f.)

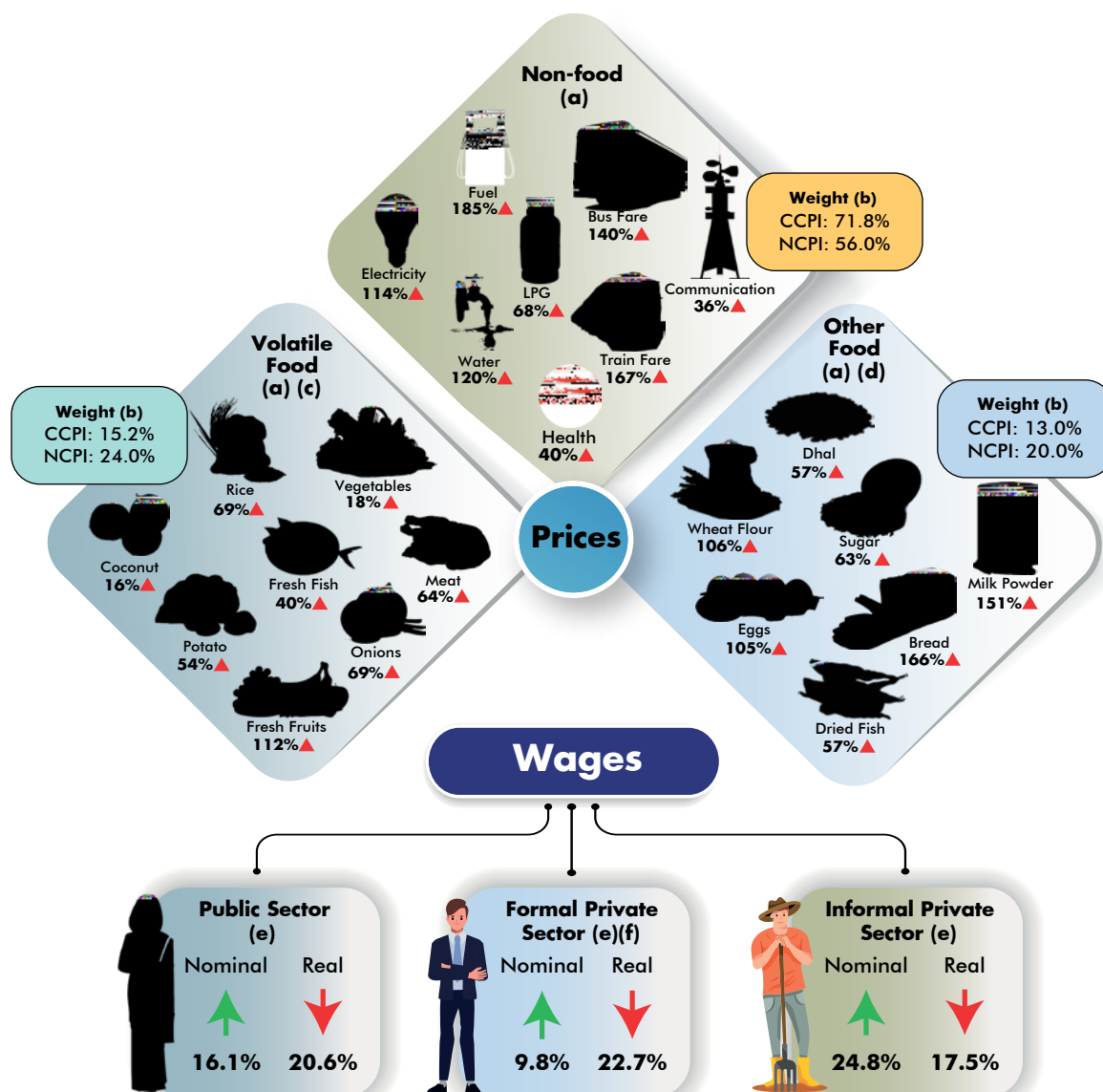
¹ The Department of Census and Statistics (DCS) compiles official consumer price indices, namely, the CCPI and the NCPI on a monthly basis. The CCPI demonstrates the price movements of selected consumer items in urban households in the Colombo district, while the NCPI reflects the same at the national level. Compilation of the CCPI (2013=100) and the NCPI (2013=100) were discontinued and replaced by CCPI (2021=100) and NCPI (2021=100) by the DCS since February 2023 and January 2023, respectively.

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

³ Food items excluding Volatile Food items.

Figure 4.1
Movements of Prices and Wages - 2022

Prices recorded unprecedented increases and real wages eroded sharply in 2022...



(a) Percentage price changes of items in CCPI (2013=100) in December 2022 compared to December 2021

(b) Weights are based on CCPI (2013=100) series and NCPI (2013=100) series

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

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

(e) Change of nominal and real wages refers to the percentage change of the averages of 2022 and 2021

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

02 May 2022, and on local Red Raw and White Raw, at Rs. 210 per kg w.e.f. 10 June 2022. Afterwards, a declining trend was observed in the prices of local rice varieties, while the prices of imported rice varieties also followed a similar trend during the same period owing to low demand,

partly due to the free distribution of rice stocks received by the Government as foreign donations to low income families. Vegetable prices, which exhibited a declining pattern in the early months of 2022, accelerated between April and June owing to supply disruptions caused by fuel shortages,

Figure 4.2
Weekly Retail Prices - Rice

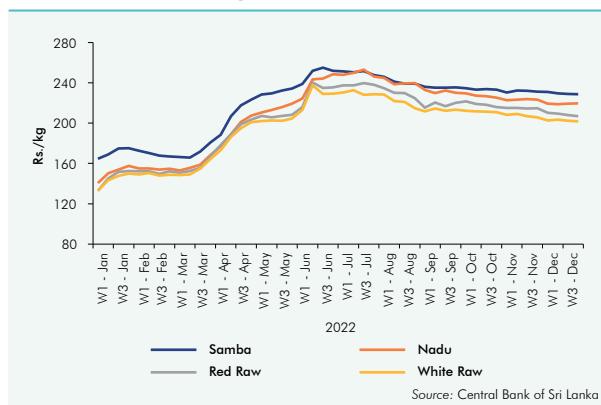


Figure 4.3
Weekly Retail Prices - Vegetables

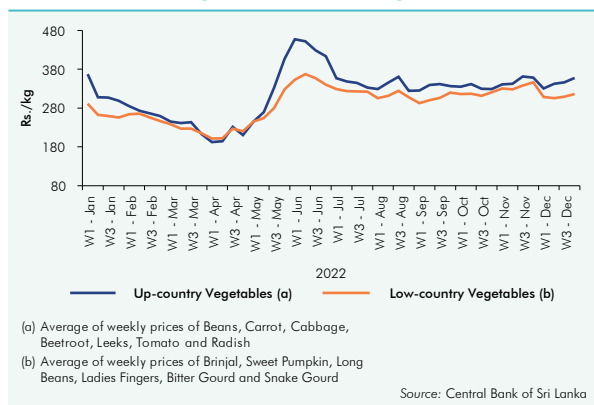
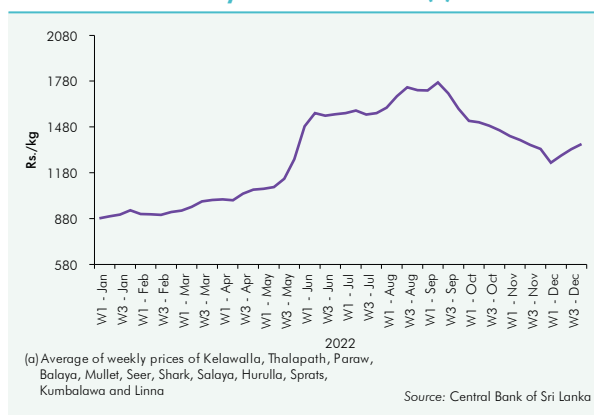


Figure 4.4
Weekly Retail Prices - Coconut (Medium)



Figure 4.5
Weekly Retail Prices - Fish (a)



higher transportation costs, adverse weather conditions, and limited availability of fertiliser and agrochemicals. Even though vegetable prices remained elevated during the second half of the year, they exhibited a slight decline between July and September 2022. Meanwhile, the price of chicken increased continuously during January to October 2022, owing to the higher cost of production, and shortage of poultry feed, minerals, and medical supplements. Further, prices of fresh fish, which were stable until April 2022 increased notably till September 2022 due to the limited fishing activities caused by shortages and elevated prices of fuel amid unfavourable weather conditions. Afterwards, fish prices were subdued in the last three months of the year partially supported by the Government initiative to prioritise the supply

of kerosene to fishing activities. During 2022, egg prices increased significantly due to the increased cost of production. Meanwhile, in order to protect consumers from the unreasonable escalation of egg prices, an MRP of Rs. 43 per each was imposed on white eggs w.e.f. 19 August 2022; yet the price per egg increased continuously in the last quarter of 2022 remaining around Rs. 50 partly caused by festive demand.

Prices of imported food items were largely affected by the shortage of foreign exchange, increase in global commodity prices, higher freight charges, and import restrictions imposed considering the economic downturn. It is noteworthy that the prices of imported food items increased excessively in the domestic market particularly with the float of the exchange

Figure 4.6
Weekly Retail Prices - Potatoes

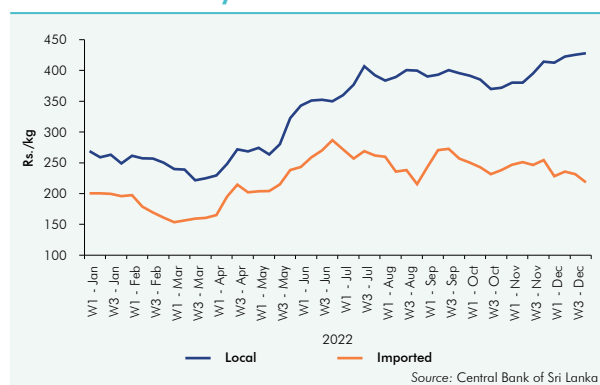


Figure 4.7
Weekly Retail Prices - Imported Big Onion



Figure 4.8
Weekly Retail Prices - Sugar and Wheat Flour

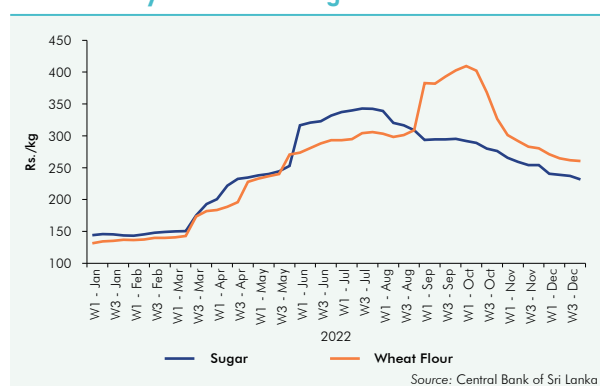
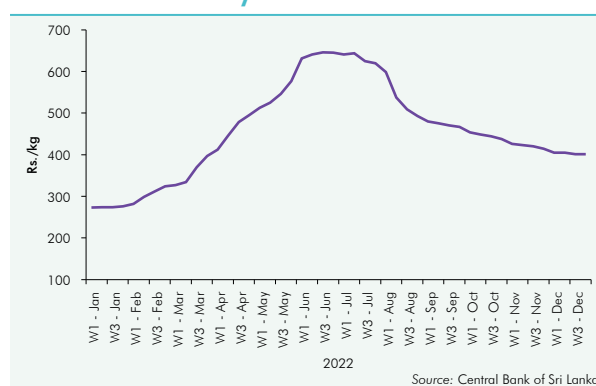


Figure 4.9
Weekly Retail Prices - Dhal



rate in March 2022. Meanwhile, higher commodity prices in the world market led to elevated levels of prices of essential imported food commodities, such as sugar, dhal, big onion, dried chilli, and potato during the year. A Special Commodity Levy (SCL) of Rs. 20 per kg was imposed on imported potato w.e.f. 15 June 2022, while the SCL of Rs. 50 per kg imposed on big onion w.e.f. 23 September 2022 in order to safeguard local big onion farmers was revised to Rs. 10 per kg w.e.f. 01 December 2022 after the local big onion season ended. Moreover, prices of wheat flour, bread, and milk powder were allowed to be determined by the market forces leading to frequent upward price revisions during 2022. Upward revisions to the price of wheat flour resulted in an increase in the price of a 450g loaf of bread from Rs. 80 at the beginning of the year to a range of Rs. 140 - Rs. 200 by

December 2022. Meanwhile, other bakery products also underwent several significant price revisions in 2022 attributable to price increases in liquid petroleum gas (LPG) and electricity in addition to price increases observed in wheat flour. Moreover, the price of a 400g imported milk powder packet was revised upwards on four occasions, considering the price increases in the global market and higher freight charges. Further, the price of a 400g local milk powder packet was also revised upwards in several instances owing to the higher cost of production. 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 year, mainly due to the reduction of prices of these commodities in the global market. Moreover, the policy measures taken to curtail the import demand and stabilisation of the exchange rate moderated

Table 4.1
Administered Price Revisions in Selected
Commodities in 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	495.00	10.03.2022
	400g	625.00	12.04.2022
	400g	850.00	23.06.2022
	400g	950.00	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
	12.5kg	4,360.00	06.11.2022
	12.5kg	4,610.00	06.12.2022
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
CPC and LIOC	1l	430.00	13.11.2022
CPC and LIOC	1l	420.00	06.12.2022
Kerosene			
CPC	1l	340.00	22.08.2022
CPC	1l	365.00	13.11.2022

(Contd.)

Table 4.1 (Contd.)
Administered Price Revisions in Selected
Commodities in 2022

Item	Unit	Revised Price (Rs.)	Effective Date
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
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
Ceylon Electricity Board
National Water Supply and Drainage Board
Central Bank of Sri Lanka

the prices of imported food items towards the latter part of 2022. However, the imposition of the social security contribution levy (SSCL) w.e.f. 01 October 2022 induced some upward pressure on prices of items in the Food category towards the end of the year.

Prices of Non-food items exhibited a significant upturn during 2022 mainly due to adverse conditions such as severe depreciation of the exchange rate and the shortage in foreign currency, arisen as a result of internal

and external economic downturns encountered in 2022. Although prices of fuel (Ceylon Petroleum Corporation (CPC)), LPG (Litro Gas Lanka Limited), and bus fares were regulated by the Government, prices of the same underwent several upward revisions reflecting the current market prices including the depreciation of the Sri Lanka rupee. Accordingly, prices of both petrol (92 Octane) and Auto Diesel underwent several price revisions by both CPC and Lanka Indian Oil Corporation (LIOC) during the year. It is noteworthy that price revisions on fuel made by both CPC and LIOC since September 2022 were based on the new pricing formula approved by the Cabinet of Ministers. In response to fuel price hikes, fares of school vans, taxis, and three wheelers also underwent upward price revisions on several occasions 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. Further, kerosene price underwent two upward price revisions, recording a substantial price increase during the year. The effects of shortages and price hikes in fuel were transmitted to and visible in each and every sector of the economy. It is noteworthy that train fares underwent an upward price revision nearly after four years w.e.f. 25 July 2022. Moreover, reflecting the impact of the rupee depreciation and import restriction measures on non-essential imports, prices of vehicle spare parts, and vehicle servicing costs increased considerably during the period under review. The price of an LPG cylinder weighing 12.5kg was revised on several occasions, impelling an overall increase in prepared food items 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 cost and distribution cost. In addition, water

tariffs, which had not been revised for nearly 10 years, underwent a notable upward revision w.e.f. 01 September 2022. Household maintenance and equipment recorded a continuous price increase during 2022 mainly due to rupee depreciation, global commodity price hikes, elevated transportation costs, and limited availability of such goods originated due to import restrictions. Moreover, housing rent recorded only a marginal increase in April 2022 partly due to the diminishing purchasing power of the tenants. Health related expenses included in the respective consumer baskets, such as private medical practice fees, and payments to private hospitals increased substantially during the year. Furthermore, the telecommunication levy, which stood at 11.25%, was increased to 15% w.e.f. 01 June 2022. Moreover, value added tax (VAT) was revised upwards from 8% to 12% w.e.f. 01 June 2022 and to 15% w.e.f. 01 September 2022, while the introduction of SSCL also contributing to escalate prices of items in the Non-food category further. The practice of maintaining prices of several key imported items, such as fuel, LPG, and prices of essential services, such as electricity and water, 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, became almost impossible under the current economic conditions. If gradual revisions of prices related to administered goods and services had been done over the years in accordance with global price fluctuations and movement in the exchange rate without artificially controlling their prices at lower levels, the impact of the drastic upward revisions that occurred during 2022 could have been mitigated with passing a lesser burden to the consumers. It is also noteworthy that when granting price subsidies, the Government should properly consider the strengths and weaknesses of all segments of the economy without obstructing the medium and long term economic revival of the country.

Figure 4.10
Contribution to Month-on-Month Percentage
Change in CCPI - 2022

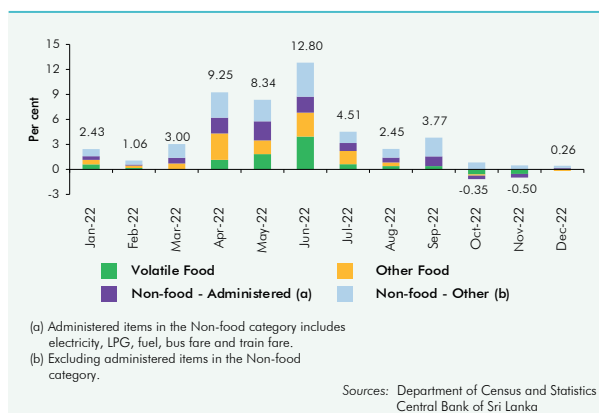
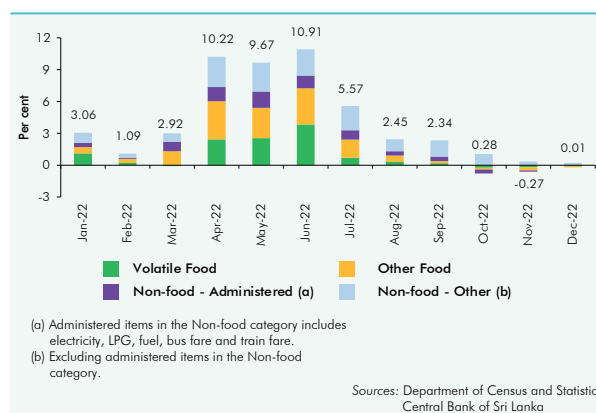


Figure 4.11
Contribution to Month-on-Month Percentage
Change in NCPI - 2022



Consumer Price Indices

Colombo Consumer Price Index (CCPI)

The CCPI (2013=100) increased from 158.4 index points in January 2022 to 243.2 index points in December 2022. The accelerated pace observed in the movement of the CCPI during the period from January to September 2022 was attributed to monthly price increases observed in both Food and Non-food categories, with a higher contribution originating from the Non-food category except for June 2022. Monthly declines were observed in the CCPI in October and November for which the major contributor was the Food category. The highest monthly change in the CCPI was recorded at 12.8% in June 2022, along with the highest monthly increases of 18.9% and 9.4% in the Food and Non-food categories, respectively, since the introduction of the CCPI series. Accordingly, the headline inflation, as measured by the year-on-year (Y-o-Y) change in the CCPI (2013=100) rose continuously from 14.2% in January 2022 to peak at 69.8% in September 2022, the highest recorded in the history. However, it pivoted towards the envisaged disinflation path in October 2022, reaching 57.2% in December 2022.

National Consumer Price Index (NCPI)

The NCPI (2013=100), which recorded 166.0 index points in January 2022, reached 256.3 index points in December 2022. In line with the CCPI, movements in prices of both Food and Non-food categories contributed towards the monthly increases observed in the NCPI during January-September of 2022. However, the monthly increase observed in October 2022 was solely driven by the increases observed in the prices of items in the Non-food category. Meanwhile, the decline observed in the monthly change in the following month was due to decreases observed in the prices of items in the Food category. The NCPI remained unchanged in December 2022 from November as the monthly price increase observed in the Non-food category was negated by the monthly price decrease in the Food category. It is noteworthy that the highest monthly increases in both Food and Non-food categories since the initiation of the NCPI were recorded at 14.2% in June and 8.6% in May 2022, respectively. Accordingly, the headline inflation, as measured by the year-on-year (Y-o-Y) change in the NCPI (2013=100) rose continuously from 16.8% in January 2022 to 73.7% in September 2022 and declined afterwards to reach 59.2% in December 2022.

BOX 6

Rebasing of Consumer Price Indices to Base Year 2021

The Department of Census and Statistics (DCS), the compiler of official Consumer Price Indices (CPIs) in Sri Lanka updated the base year of official CPIs from the base year of 2013 to 2021. Rebasing of CPIs at regular intervals in line with international standards and best practices is essential to reflect contemporary consumer spending patterns in a more accurate manner. Rebasing leads to upgrades of main features of the CPIs especially the weight structure, which indicates the prominence or the representativeness of goods and services in the basket of goods and services. Further, the composition of the basket would also get revised with addition of new items and removal of existing items based on the significance of latest consumption patterns.

The DCS released rebased CPIs (2021=100), i.e., National Consumer Price Index (NCPI) and Colombo Consumer Price Index (CCPI) from February 2023. The CCPI which was introduced with the base year of 1952 was rebased four times resulting CCPI series with the base years, 1952, 2002, 2006/07, 2013 and 2021, while for the NCPI, 2021 is the second series after its first series with the base year 2013. The methodology of the index calculation was updated with the rebasing, where CPIs (2021=100) are now calculated in two stages. In the initial stage, elementary indices are compiled, while higher level indices are compiled at the second stage. Elementary indices are compiled using the geometric mean or the Jevons Formula, while the higher level

indices are compiled using the Young Formula. The weight structure of both CPIs is based on the Household Income and Expenditure Survey (HIES) conducted by the DCS in 2019, which comprised of all types of consumption expenditure incurred by a household. Accordingly, the weight reference year of both CCPI (2021=100) and NCPI (2021=100) is 2019. Further, prices reported during the period from January 2018 to December 2019 were used as the price reference in the calculation of indices. The index reference period which is the period where the index was equaled to 100, is 2021. The key features of the official price indices are given in Table B 6.1.

A significant change observed in the weight structure of both CPIs with the rebasing is that the weight of Food category decreased while that of Non-food category increased. Accordingly, the weight of the Food category in the CCPI decreased to 26.23 per cent from 28.24 per cent, while the weight of the Food category in the NCPI decreased to 39.22 per cent from 44.04 per cent with the rebasing process. In rebasing, items such as bread (special), dambala (winged beans), and watermelon were added to the Food category, while items such as fresh sprats, crabs, and sesame oil were removed. Meanwhile, the weight of the Non-food category in the CCPI and the NCPI increased to 73.77 per cent from 71.76 per cent and to 60.78 per cent from 55.96 per cent respectively. With the rebasing,

Table B 6.1
Key Features of Official Consumer Price Indices

Features	CCPI (2013=100)	CCPI (2021=100)	NCPI (2013=100)	NCPI (2021=100)
Index Reference Year	2013	2021	2013	2021
Weight Reference Year	July 2012 – June 2013	January 2019 – December 2019	July 2012 – June 2013	January 2019 – December 2019
Geographical Coverage	Urban areas of Colombo District	Urban areas of Colombo District	All Provinces in Sri Lanka	All Provinces in Sri Lanka
Size of a Household Unit	3.9	3.8	3.9	3.7
Average Monthly Consumption Expenditure (Rs.)	Rs. 60,364.73	Rs. 91,880.34	Rs. 32,142.69	Rs. 50,728.60
Value of One Index Point	603.65	918.8	321.43	507.29
Major Groups	12	12	12	12
Subgroups	105	105	105	105
No of Items	392	426	407	485
Percentage of Total Weight				
Food	28.24	26.23	44.04	39.22
Non-food	71.76	73.77	55.96	60.78
Price Collection Centers	14	10	3 per District Town	3 per District Town

Source: Department of Census and Statistics

Figure B 6.1
Change in Weight Structure from
CCPI (2013=100) to CCPI (2021=100)

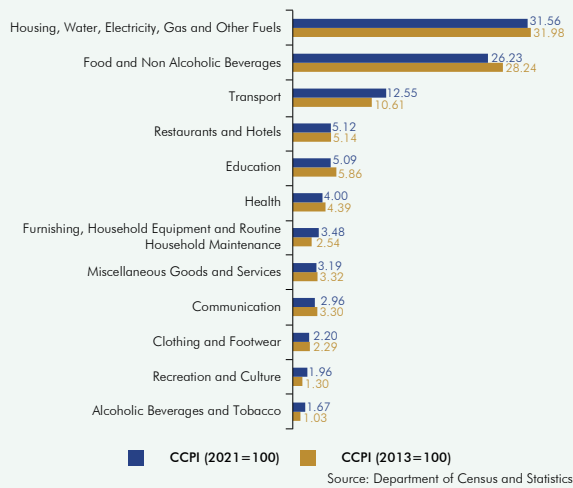


Figure B 6.2
Change in Weight Structure from
NCPI (2013=100) to NCPI (2021=100)

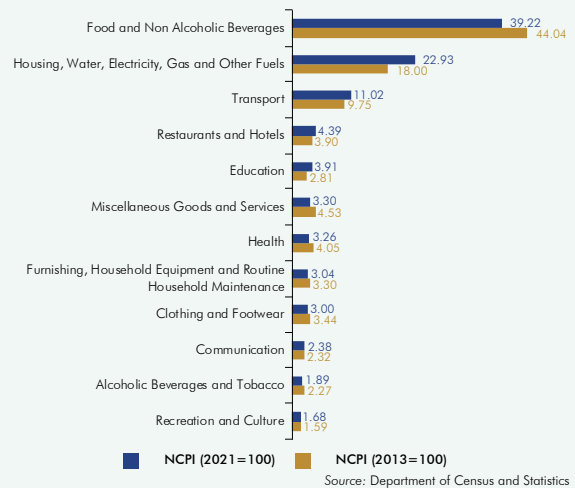


Figure B 6.3
Movements of Month-on-Month Percentage Change
CCPI (2013=100) and CCPI (2021=100)

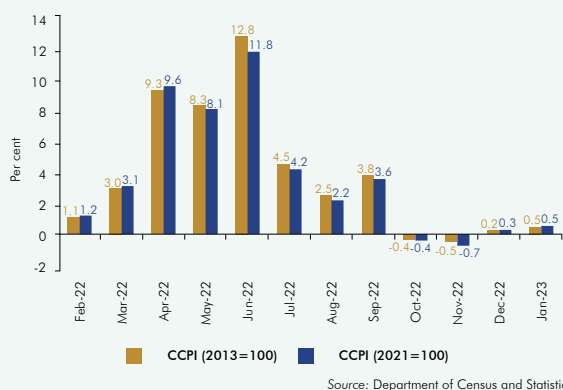
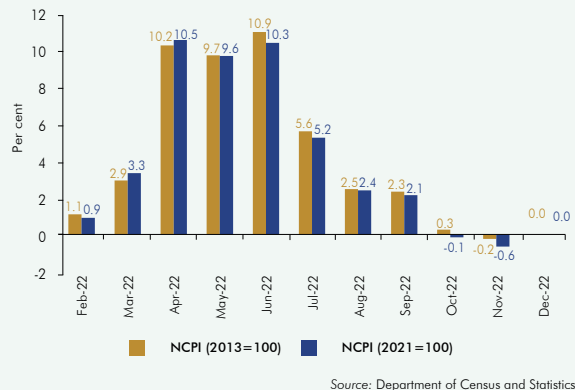


Figure B 6.4
Movements of Month-on-Month Percentage Change
NCPI (2013=100) and NCPI (2021=100)



items such as tables, and tailoring charges for clothing were added to the Non-food category, while items such as cigars, steel almirahs and dry cell batteries were removed. It is noteworthy that Housing, Water, Electricity and Other Fuels, Food and Non Alcoholic Beverages, and Transport sub-categories continued to remain as the topmost categories in terms of their expenditure value with the rebasing of both the CCPI and NCPI.

In terms of both the CPIs the index overlapping period is between January 2022 and December 2022. Accordingly, the comparison of month-on-month percentage changes of both the CPIs with their current and previous base periods are shown in Figures B 6.3 and B 6.4. As per these figures, the variations between

the base years are largely minimal owing to the slight differences in the weight structure and the composition of the basket of goods and services under the two bases. Nevertheless, it is imperative to rebase CPIs on the specific time intervals to ensure that the prevailing consumption patterns are reflected accurately as CPIs plays a crucial role in the economic decision making processes of various economic agencies.

References

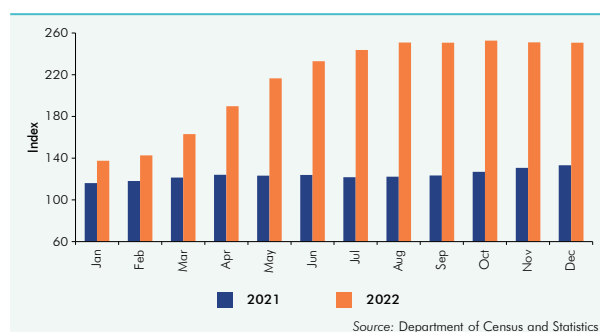
1. Department of Census and Statistics. A Briefing on the Rebased Colombo Consumer Price Index (Base 2021=100) for Sri Lanka. Available at: http://www.statistics.gov.lk/InflationAndPrices/StaticInformation/MonthlyCCPI/Technical_Note
2. Department of Census and Statistics. A Briefing on the Rebased National Consumer Price Index (Base 2021=100) for Sri Lanka. Available at: <http://www.statistics.gov.lk/InflationAndPrices/StaticInformation/NCPI/NCPITechnicalNote>

Producer Price Index (PPI)

The PPI (2018 Q4=100), as measured by the average prices received by the domestic producers of goods, which is compiled by the DCS, exhibited an overall increasing trend during 2022 from 137.4 index points in January 2022 to 251.4 index points in December 2022.

The PPI moved at an accelerated pace during the period from February to August, mainly contributed by the Manufacturing subsector which had the highest weight yet stabilised during the remainder of 2022. The Agriculture subsector in the PPI, which recorded 164.1 index points in January 2022, increased exponentially during the first half of the year and remained stable afterwards reaching 238.6 index points in December 2022. Meanwhile, the PPI in the Manufacturing subsector reported 135.3 and 257.0 index points in January and December 2022, respectively, recording monthly declines only in September and November 2022. The PPI in the Utility (Electricity, Gas, Steam and Air conditioning supply and Water collection, treatment and supply) subsector, which was recorded at 103.3 index points in January 2022, increased notably in August and September owing to upward revisions in electricity and water tariffs, reaching 174.2 index points in December 2022. The producer price inflation based on the Producer Price Index (PPI, 2018 Q4=100) increased until August 2022 and declined towards the end of the year reaching 89.0% in December 2022.

Figure 4.12
Movements of the PPI



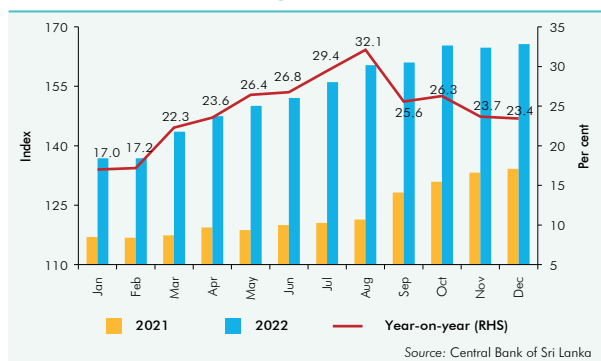
4.3 Wages

Real wages of employees in the formal and informal private sectors and public sector eroded due to less than full wage adjustment to rising prices, while the nominal wages of employees in all sectors increased in 2022 compared to the previous year. The increase in nominal wages of the employees in the informal private sector was mainly attributed to the demand for higher wages due to the significant rise in the cost of living, while paying a special allowance of Rs. 5,000 for all employees of the public sector had a positive impact on the increase in nominal wages of public sector employees.

Private Sector Wages

Nominal wages of informal private sector employees, as measured by the informal private sector wage rate index (2018=100), exhibited an overall increasing trend in 2022. Accordingly, the informal private sector wage rate index (2018=100), increased significantly in nominal terms by 24.5% in 2022, compared to the increase of 9.2% in 2021. In terms of the sub-activities, namely, agriculture, industry, and services, the informal private sector wage rate index increased in nominal terms by 27.6%, 22.4% and 26.4%, respectively, in 2022 compared to the previous year. The nominal wage rate index recorded monthly increases during 2022 except for November 2022. These increases were mainly attributed to wage demands by daily wage earners owing to the sharp increase in the cost of living during the year. The decline recorded in November was mainly due to the decreases observed in both industry (manufacturing and construction) and services (wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service activities; and hair dressing and other beauty treatments) related

Figure 4.13
Movements of the Informal Private Sector Wage Rate Index during 2022 (Nominal)



activities. Moreover, in 2022, labour demand and supply side negotiations played a vital role in deciding informal sector daily wages due to constraints that prevailed during the year such as significant contraction of economic activity, consumers prioritising some needs considering individual payment capacity over certain dispensable activities, and reduced working hours due to supply shortages in utilities, such as LPG, fuel, and electricity. In addition, some activities such as brick making, other cement article making and bakery/restaurant activities were halted temporarily due to the unavailability of raw materials such as cement, wheat flour, etc. affecting the livelihood of many informal private sector workers. Overall, due to the high inflationary environment, informal private sector employees experienced a real wage erosion of 15.7% in 2022, compared to the previous year.

Nominal wages of the 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, recorded slight increases in 2022.

⁴ Nominal wages of 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 nominal wage rate index increased by 9.8% in 2022 compared to the previous year mainly due to the statistical effect of the lower base prevailed in early 2021. It is noteworthy that the minimum daily wage of tea and rubber plantation workers increased to Rs. 1,000 w.e.f. 05 March 2021 through respective wage boards for 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. 3 of 2016 w.e.f. 16 August 2021. Meanwhile, the real wage rate index of the formal private sector decreased by 22.7% in 2022 compared to 2021 mainly due to the high inflationary environment that prevailed in 2022.

Public Sector Wages

Payment of the special allowance of Rs. 5,000 for all public sector employees was initiated at the beginning of 2022 by the Ministry of Finance as a relief measure to the rising cost of living. Moreover, the salary anomalies of school principals and teachers were removed through upward revisions made to their salaries in January 2022. Consequently, nominal wages of the 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. Accordingly, the public sector wage rate index (2016=100) increased in nominal terms by 16.1% in 2022 compared to the previous year. However, due to the developments in inflation, public sector employees experienced a real wage erosion of 20.6% in 2022 compared to 2021.