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# Sri Lanka's economic Iliad:

## Welcome to the greatest show on earth

For us in Sri Lanka, the 'theatre-scape' of economics is now sharper than the Iliad. We are bombarded with the news hour on hour across mass media that Sri Lanka is indeed on a growth trajectory. Whilst it may be possible to demonstrate this through forms of reason, what people care about development is how it looks after them. In this respect the burden of the cost of living is key. Let us look at how the cost of living has performed last year.

### Cost of Living

The island's inflation rate was recorded at 5.60 percent in November 2013. Inflation rate in Sri Lanka is reported by the Department of Census and Statistics. From 1986 until 2013, inflation averaged 10.5 percent reaching an all time high of 28.3 percent in June 2008 and a record low of -0.9 Percent in March 1995.

In Sri Lanka, the Consumer Price Index (CPI) is composed of two main groups: food items (41 percent) and non-food items (59 percent). Food items are mainly composed of: bread and cereals (7.9 percent), fish and sea food (6 percent) and vegetables (5.7 percent). The most important non-food items are housing, water, electricity, gas and other fuels (23.7 percent), transport (12.3 percent), and restaurants and hotels (5.8 percent).

The above is a graphical representation of inflation.

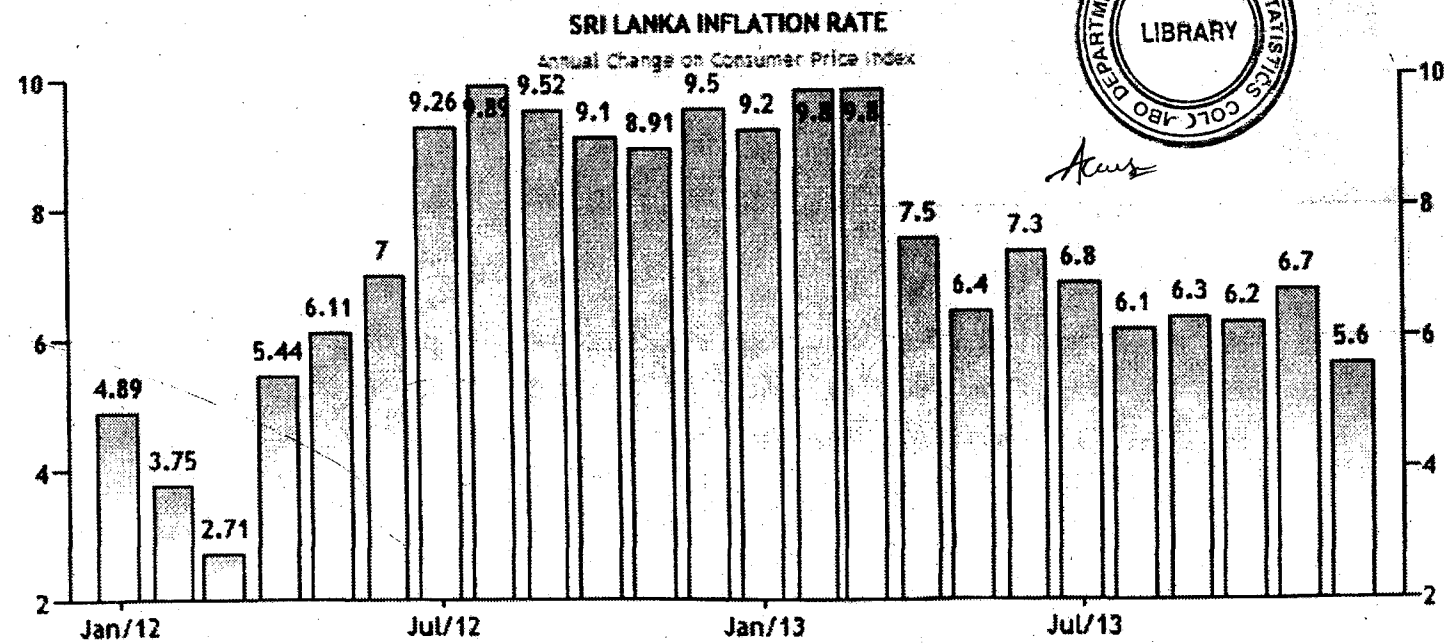
Ever wondered how they work out inflation? That's where the inflation basket of goods for 2012 - announced today - comes in.

Basically, it's the list of items the statistical department monitors prices on before it can pronounce what is happening to the cost of living each month. Studying these over time provides a narrative of social change.

For instance in the United States and Europe tablet computers, casserole dishes, step ladders and charges for developing film have dropped out. Other changes according to [www.theguardian.com](http://www.theguardian.com) include

- Bundled communication packages comprising telephone, internet and television are also included for the first time
- Cans of stout, such as Guinness, have been added to widen the coverage of beers in the basket, along with nine-ples, hot oat cereals and takeaway chicken and chips
- The popularity of digital cameras means charges for developing and printing colour film have been removed
- Walking and hiking boots have replaced by outdoor adventure boots, and a bag of foam sweets has replaced a bag of boiled or jellied sweets

Inflation is calculated in two different ways: Consumer Price Inflation (CPI) and Retail Price Inflation (RPI). CPI is the measure the government prefers, and you can see from the list below how each indicator includes different items. In some western countries the CPI measure this year now includes trades union membership and vehicle excise duty, or road tax - neither of which were measured before, despite being part of the RPI calculation.



### Official explain this thus:

A convenient way of thinking about both the CPI and RPI is to imagine a 'shopping basket' containing those goods and services on which people typically spend their money. As the prices of the various items in the basket change over time, so does the total cost of the basket. Movements in the CPI and RPI represent the changing cost of this representative shopping basket.

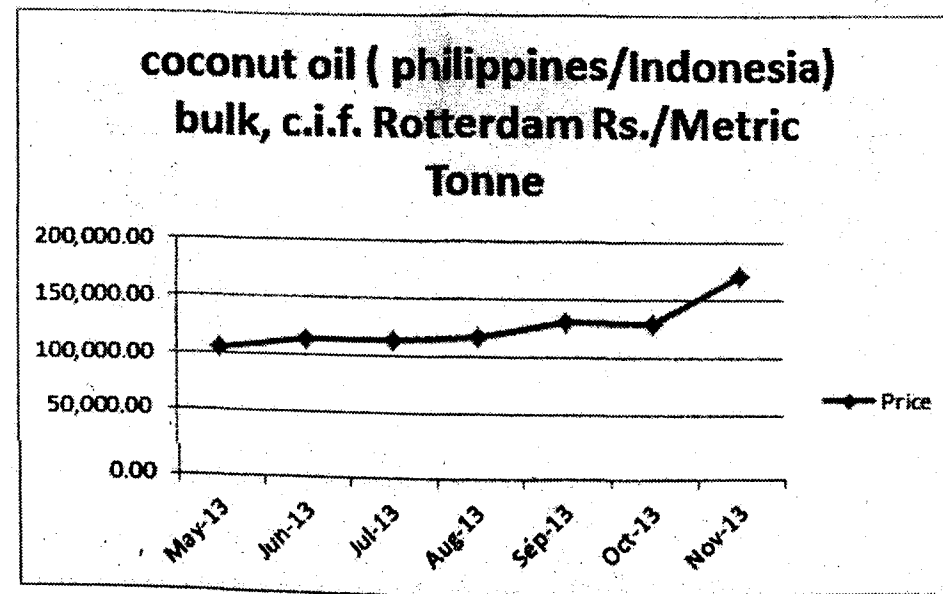
How do they compile the data? A number of separate price quotations are used every month in compiling the indices.

Everything is weighted - so some things get more importance in calculating the inflation figure than others. For example, even though there are 23 food and beverage items in the CPI basket, transport is given more weight as it's such an expensive part of people's daily lives.

On the other hand if you do actually look at retail price indices you would be in a better position to understand how the economy has really shifted - another reason why governments prefer inflation to RPIs. By applying weight, the calculator has discretion over the outcome since the weight and selection of the category is at the discretion of the calculator.

### Retail prices

A Sri Lankan meal is incomplete without coconut. The price of coconut and coconut oil provides insight into the cost of living that is felt by every Sri Lankan. Below we take a graphical glimpse at the price of coconut oil imports (cif) from



### Philippines and Indonesia.

Notice how from just May to November the prices have gone up from Rs. 104,329 per MT to 170,886 per Mt, an increase of 63%.

### Transport

So far this year, if memory serves me right, we have taken a 20% hike on bus fares and then most recently a 7% hike. So that is over 27%.

As for power costs, the increases raised so much furore that even talking about it may give a few heart attacks.

### Power

There is a belief that the incandescent bulb will soon be banned, which means that the capital expenditure on a CFL will make replacement real torture. You will no longer be able to replace a burnt out bulb for under Rs. 100.

An extract from a financial newspaper in 2008 is given below.

"The import and local manufacture of incandescent (normal) bulbs of 75W and above will be banned within the month of July while promoting the use of CFL bulbs in a bid to reduce power consumption, according to the state-run Sustainable

Energy Authority (SEA). However industry officials are skeptical whether the traditional bulb could be replaced given its presence in the world for over 100 years, and also raised concerns about proper disposal of used CFL bulbs which has a mercury content.

Cabinet approval for this has already been obtained and the regulations will be gazetted within this month, Chairman of the Authority Ananda Gunasekera said. He could not give a specific date when the ban will be enforced but said it would be effective when the gazette regulation, published under the Sustainable Energy Authority Act no 35 of 2007, comes out. A complete ban of the incandescent variety of bulbs will come into effect in 2010. Under these regulations bulbs will also have to be marked with the energy rating that will be issued by the SEA after tests carried out on samples by SLS. This rating process, which was voluntary until now, has been made mandatory by the new regulations and violators will be blacklisted and prevented from importing hereafter. " - Sunday July 13, 2008 (Financial Times)

So the question is am I breaking the law because all my bulbs are still incandescent?

Despite several searches, it was not possible to determine whether this law is currently in force. A visit to a few supermarkets however revealed (to my great relief) the availability of incandescent bulbs.

### Public participation in business

In this backdrop new laws are enabling broad basing public ownership of quoted companies with laws now in place to ensure that at least a 20% free float - that is shares not held by the controlling interest and connected parties. What effect this new law will have on the market place only time will tell, but for the greater good, a public company should have enough of its shares available to the public, not only as shares but also as a percentage shareholding. One of the key features of the new law is that the public will now have a higher percentage of the shares, theoretically giving them better say in the management.

### Coins

Anyone using public transport or shopping at a supermarket will tell you how badly we are short of coins. The Rs. 10 note is in high demand and you sometimes wonder why the market value of the Rs. 10 note has not increased. Coinage is no longer deemed necessary except for proper settlement as no coin can buy you anything more than a toffee. What can one purchase for Rs. 5 or even 10? So the question is will we phase out coins entirely and let prices adjusted accordingly?

### Wishing a better 2014

The fact that a majority believe that 2013 was a great year is perhaps the saddest truth. Economics, some say, is a dead science but numbers rarely lie. In this backdrop it is hoped that Lankans have a better 2014. As for me I am still waiting for that coconut sapling and the cow that several blokes promised us through a budget and an election manifesto not so long ago