

**A Briefing on the
First Release of National Consumer Price Index (Base 2013=100) for Sri Lanka
Department of Census and Statistics**

The Department of Census and Statistics (DCS) has been releasing Colombo Consumer Price Index (CCPI) with base period of 2006/07 from June 2011, covering the urban areas of Colombo district. The latest Consumer Price Index (CPI) released by the DCS is National Consumer Price Index (NCPI). NCPI will be released monthly commencing from November 2015 with a time lag of 21 days. The NCPI will have weights based on consumer spending in 2012/13, and will reflect new methods consistent with international best practices.

1. Background

A Consumer Price Index serves a number of purposes. It is an indicator to measure the changes in the general level of consumer prices and used as one of the key indicators of inflation. Consumer Price Index is also used for socio-economic analysis and policy purposes, mainly in the determination of monetary and income policies. It is used in the analysis of the trends in wages and other monetary incomes, for indexation of salaries and wages etc. Consumer price index is also used to deflate the current values in National Accounts to obtain real values and therefore, a major determinant of the GDP deflator, which is a more comprehensive indicator in the overall inflation in a country.

2. Expanded Geographic Coverage

To better reflect international best practices, the new CPI i.e National Consumer Price Index for Sri Lanka will be compiled using prices collected for all of the nine provinces. From 1953 to April 2008 the DCS has compiled and disseminated a CPI for the Colombo metropolitan area only. Since May 2008 to DCS has been compiling and disseminating a CPI covering the urban areas of Colombo district. However, there is great need for an index that measure price change for the entire country. As noted above, the CPI is one of the key indicators used to formulate fiscal and monetary policy decisions and further to enhance the effectiveness of the policy decisions, a national index is needed. The NCPI represents a major milestone in the development and improvement of macroeconomic data for Sri Lanka.

3. Features

The National Consumer Price Index NCPI (Base 2013=100), is based on data from the Household Income and Expenditure Survey conducted in 2012/13. The 2012/13 HIES included all types of consumption expenditures by households, and was broadly representative of all households in the country. The main features of NCPI are as follows:

- 3.1 A Base Period:** The year 2013 is the base period for NCPI. The total monthly value of the base period expenditure level on the basket of goods and services in the NCPI (Base

2013=100) is Rs. 32,142.69. This expenditure level is 14.9% greater than the base period expenditure level of Rs. 27,972.11 in the CCPI(Base 2006/07=100). This increase reflects the increased expenditure due to geographical coverage, higher income, prices changed composition of the each provincial market baskets and reference periods.

- 3.2 Weights:** Prior to this update, the weight for each item reflected the relative importance or contribution to total expenditures only of those households living in the metropolitan Colombo urban area and did not relate to total consumption expenditures of all Sri Lankan households. To reflect international recommendations and best practices, the weights now refer to each item's share in the total consumption expenditures of all Sri Lankan households. The provincial weights refer to the consumption expenditures within the province in proportion to the expenditure in the whole country for each item.
- 3.3 Market Basket of Goods and Services:** The NCPI (Base 2013=100) has a larger consumption basket than in the CCPI(Base 2006/07=100) . It contains 105 sub classes of goods and services further categorized in to 12 groups, as against 95 sub classes in the CCPI(Base 2006/7=100) The average household expenditure and percentages for the 12 groups in the NCPI (Base 2013=100) are given in Table 02. The share of food category is 44.04% while the share of Non – food category is 55.96% in the NCPI(Base 2013=100).
- 3.4 Full year coverage of Consumption patterns:**
Expenditure weights were obtained using data on Household Expenditure in the Household Income and Expenditure Survey during the 12 months period from July 2012 to June 2013. Therefore, it has captured the seasonal variations of consumer pattern.
- 3.5 Expansion of Price collection:**
For compiling CCPI, the DCS collects prices from fourteen pricing centers located in the Colombo district urban areas. For the NCPI, the prices are collected for each item in the market basket from 03 price collecting centers in each district town.
- 3.6 Inclusion of Alcohol, Tobacco and Narcotics:** The CCPI (Base 2006/07=100) has not covered alcoholic beverages, tobacco and narcotics as an expenditure item in the consumption basket to be consistent with government policy of discouraging their consumption as the CCPI (Base 2002=100). But the NCPI (Base 2013=100) included the alcoholic beverages, tobacco and narcotics as an expenditure item complying with international best practices.
- 3.7. Method of Computation:** In the past, the DCS used the Laspeyres index number formula to calculate the CPI. For each item in the sample its price collected in the current period was compared to its price in a fixed base period; this produced the long-term price ratio

for each item. With the new NCPI, the DCS has introduced the use of the Modified, or Two-Stage, Laspeyres formula to calculate the CPI. The price collected in the current period is divided by its previous period price. This short-term ratio is multiplied by the item's estimated cost of base period spending in the previous month to obtain the current-period estimate of the cost of base period spending assigned to the item. As before, the CPI is the sum of the current period estimated cost of base period spending divided by the spending in the fixed base period.

3.8 Value of one Index Point: Monthly average per household Consumption expenditure of this index which is based on the year 2013 is Rs. 32,142.69 and the value of one index point was Rs. 321.42 (Rs. 32,142.69/100).

Comparison of key characteristics between the National Consumer Price Index (Base 2013=100) and the Colombo Consumer Price Index (Base 2006/07 =100) are summarized in Table 01 below.

Table 01- Comparison of key characteristics between National Consumer Price Index (Base 2013 = 100) and the Colombo Consumer Price Index (Base 2006/7=100)

Special features	NCPI(Base 2013)	CCPI(Base 2006/7)
1. Base year	2013=100	2006/07 = 100
2. Geographical characteristics	All Provinces in Sri Lanka	All urban areas of Colombo District
3. Target household units	All households in each Province	All households in urban areas of Colombo District
4. Size of household unit	3.9	4.4
5. Average monthly Consumption Expenditure	Rs. 32,142.69	Rs. 27,972.11.
6. Value of one Index point	Rs.321.42	Rs.279.72
7. Major Groups	12	10
Sub Groups	105	95
8. Total number of items	407	373
9. Percentage of total weight		
i. Food	44.04	41.03
ii. Non Food	55.96	58.97
10. Price Collection Centres	03 price collecting outlets in each District town for each item	14 price collection centres covered Colombo urban areas

Table 02- National Consumer Price Index and Colombo Consumer Price Index weights by main categories

Main Categories	NCPI(Base 2013 =100)		CCPI(Base 2006/07 =100)	
	Value of Expenditure (Rs.)	Weight (%)	Value of Expenditure (Rs.)	Weight (%)
Total consumption expenditure	32,142.69	100	27,972.11	100
Food and non alcoholic beverages	14,156.29	44.04	11,476.50	41.03
Non food	17,986.40	55.96	16,495.61	58.97
Non Food				
1. Alcoholic beverages, Tobacco and Narcotics	728.89	2.27		
2. Clothing and footwear	1,105.09	3.44	879.53	3.14
3. Housing, Water, electricity and fuel	5,785.88	18.00	6,635.95	23.72
4. Furnishing, Household equipment & Routine Household maintenance	1,059.12	3.30	1,005.89	3.60
5. Health	1,301.96	4.05	884.42	3.16
6. Transport	3,134.84	9.75	3,430.49	12.26
7. Communication	746.61	2.32	1,329.27	4.75
8. Recreation and culture	509.60	1.59	419.27	1.50
9. Education	903.83	2.81	1,102.05	3.94
10. Restaurant and Hotels	1254.54	3.90		
11. Miscellaneous goods and services	1456.05	4.53	808.74	2.89

Note 1: In CCPI (Base 2006/07=100), Alcoholic beverages, Tobacco and Narcotics division was not included and Restaurants and Hotels division was included under the food group.

Note 2: In CCPI (Base 2006/07=100) vehicle insurance fee and revenue license fee added together and include in to the Transport division, but in NCPI (Base 2013=100) vehicle insurance fee included in to the Miscellaneous goods and services as per the international recommendations.