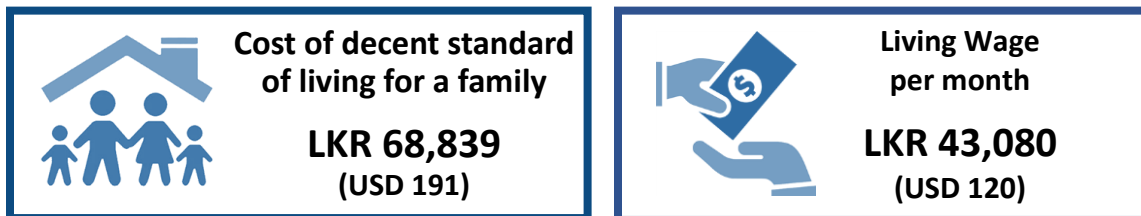


Living Wage Update Report: Estate Sector, Sri Lanka, June 2022

Living Wage Update Report No. 2022-04-18



Living wage and living expenses in this update report are for June 2022 only. Because of the very high inflation rate in Sri Lanka (annual rate of 59% in June 2022), which is expected to increase to about 70% by August before moderating, it is necessary to continually update the living wage in future to take this very high inflation into consideration.



Photo Courtesy © Didier Gentilhomme for Fairtrade International- Watawala Plantation, Sri Lanka

Living Wage Update Report: Estate Sector, Sri Lanka, June 2022

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Abstract:

This report provides updated estimates of family living expenses and living wages for the tea industry in the estate sector of Sri Lanka until June 2022, taking into account inflation and changes in payroll deductions since the original Anker living wage study carried out in December 2015 (Thibbotuwawa, Jayawardena, Arunatilake & Gunasekera, 2015).

Keywords: Living costs, living wages, Anker Methodology, Sri Lanka

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the living wage and family living expenses for the tea industry in the estate sector of Sri Lanka for June 2022. This update takes into account the amount of inflation since the original study in December 2015, by updating the December 2015 net living wage and family living income expenses to June 2022 by inflation. Without accounting for inflation, the net living wage estimated in 2015 would not be sufficient for workers to have a basic but decent standard of living in June 2022 because the purchasing power of the living wage would have considerably decreased. The gross living wage (aka living wage) is updated to June 2022 by also taking into account income taxes and mandatory deductions from pay that workers would need to pay on the updated 2022 living wage, using laws in force in June 2022.

2. LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM DECEMBER 2015

The net living wage was estimated as LKR 19,126 per month in December 2015 in the original living wage country report. The gross living wage, which also takes into account income taxes and mandatory deductions from pay for social security and union dues, was estimated as LKR 21,115 per month in December 2015. The living expenses for a basic but decent standard of living for a reference family in the original country report was estimated as LKR 33,661 in December 2015 (Thibbotuwawa, Jayawardena, Arunatilake & Gunasekera, 2015).

3. INFLATION RATE USED FOR UPDATE

The Department of Census and Statistics (DCS)¹ in the Ministry of National Policies and Economic Affairs has reported each month since November 2015 what it considers a national inflation rate for Sri Lanka.² This replaced the inflation rate it reported since 2008 for urban areas of Colombo District and the inflation rate it reported from 1953 to April 2008 for metropolitan Colombo. This relatively new national inflation rate series for Sri Lanka is used to update the December 2015 living wage to 2022. It is worth noting that national inflation rates are estimated based on prices in urban areas and that separate inflation rates are not reported by government for the estate sector or for rural areas.³

4. RECENT LEVEL OF INFLATION

Sri Lanka has been suffering one of its worst economic and political crises and as a result it has experienced soaring inflation rates during the last several months, which are reminiscent of the early 1970s.⁴ Between

¹ <http://www.statistics.gov.lk/InflationAndPrices/StaticInformation/MonthlyNCPI>

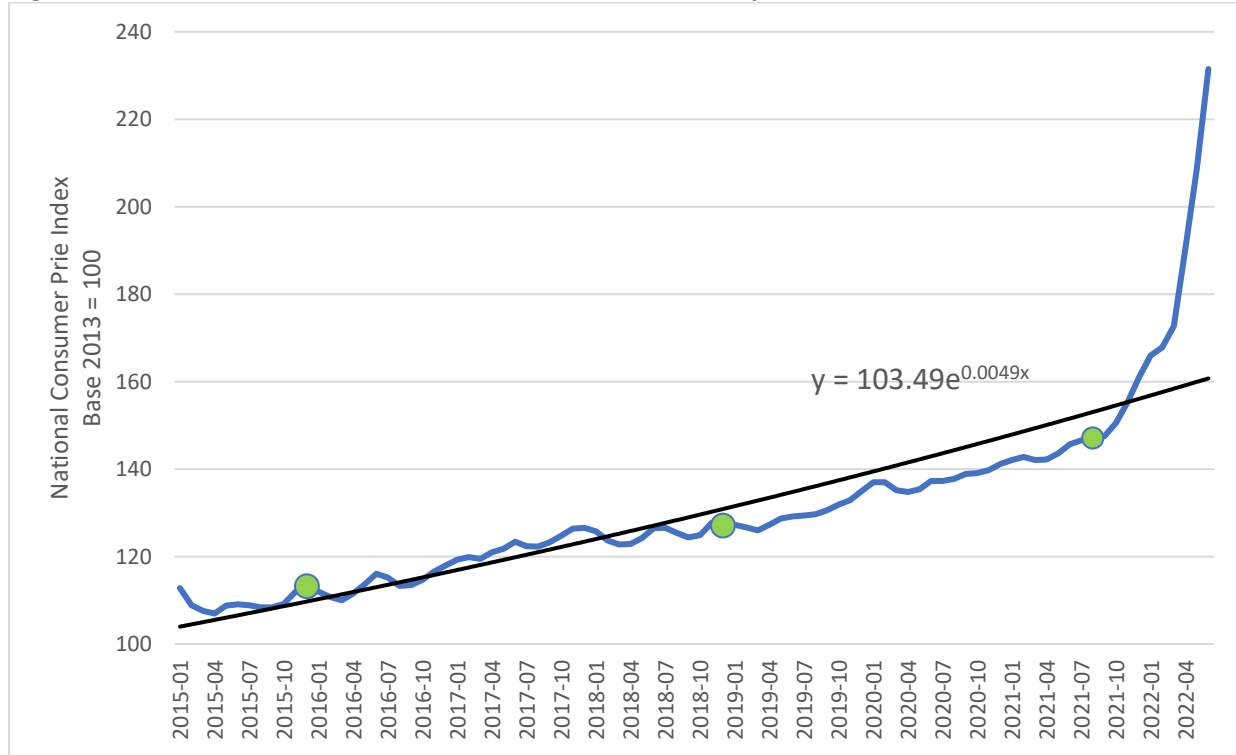
² Note that while the expenditure weights in the CPI consumption basket are representative of national expenditure patterns in Sri Lanka, the government measures changes in prices for urban areas only (i.e., district towns). The implicit assumption used by government and in this update report is that inflation in urban areas of Sri Lanka is representative of inflation for the estate sector in Sri Lanka.

³ Note that compared to the living wage consumption basket for the estate sector, the consumption basket used to estimate the national inflation rate for Sri Lanka has lower expenditure weights for food and housing and a higher expenditure weight for Non-Food-Non-Housing expenditures.

⁴ See <https://www.cnbc.com/2022/03/04/sri-lankas-economy-inflation-and-debt-burden-worsen-economic-crisis.html>

December 2015 and June 2022, accumulated inflation amounted to 105% in Sri Lanka (see Figure 1). This is the inflation rate used for this update. Much of this inflation has been in the past year, as the inflation rate in the past year (June 2021-June 2022) was approximately 58%.

Figure 1: National Consumer Price Index for Sri Lanka, January 2015 to June 2022



Notes: Green circles indicate the months of the original study and earlier updates. The black line is the fitted exponential trendline.

Source: Authors' elaboration based on CPI data from Department of Census and Statistics (DCS).

5. MANDATORY DEDUCTIONS

Employees in Sri Lanka are required to contribute to the Employees' Provident Fund (EPF), which is the largest social security scheme in the country. This report continues to assume that workers earning a living wage are required to contribute 8% of their gross wage to EPF as in the original living wage study from 2015, following official requirements.⁵

In addition, this report takes into account two other payroll deductions: LKR 150 contribution to the Kovil Fund (religious activities) and LKR 150 contribution to the Labor Union. This has not changed since the original study. As in the original 2015 study report, no income tax would be due on the living wage in 2022 because of personal tax relief.

⁵ See https://epf.lk/?page_id=2.

As such, the mandatory payroll contributions and income tax (PAYE) breakdown is as follows:

Table 1: Breakdown of mandatory payroll deductions and income tax paid on living wage for June 2022

Component	Amount in LKR
Net Living Wage	39,114
EPF	3,666
Kolvi Fund	150
Union Dues	150
PAYE income tax	0
Gross Living Wage	43,080

Source: Authors' calculations.

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR JUNE 2022

The updated net living wage, or take-home pay, for June 2022 is LKR 39,114 (USD 109) per month. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is LKR 43,080 (USD 120) per month for June 2022. It is worth noting that this despite the large increase in the living wage in the past year because of high inflation, the value of the living wage in US dollars decreased because the depreciation of the LKR was greater than the inflation rate.

Table 2 provides details of the original and the updated living wages and family living expenses. It is important to note that this living wage is valid only for June 2022. Because of the very high and increasing inflation rate in Sri Lanka (annual rate of 55% in June 2022) which is expected to increase to about 70% by August before moderating according to the Central Bank governor⁶, it is necessary to continually update the living wage in future to take this very high inflation into consideration.

Table 2: Living wages and living expenses for the estate sector of Sri Lanka (in Sri Lankan Rupee and US Dollars)

Item	December 2015 Original Study Date		August 2021 Update Report		June 2022 Update Report	
	LKR	USD	LKR	USD	LKR	USD
Living Expenses for Reference Family Per Month	33,661	235	43,741	218	68,839	191
Net Living Wage Per Month	19,126	133	24,854	124	39,114	109
Income Taxes and Payroll Deductions Per Month on Living Wage	1,989	14	2,277	11	3,746	10

⁶ <https://www.cnbc.com/2022/07/21/inflation-in-sri-lanka-will-hit-70percent-says-central-banker.html>

Item	December 2015 Original Study Date		August 2021 Update Report		June 2022 Update Report	
	Gross Living Wage Per Month	21,115	147	27,131	135	43,080
Exchange Rate to USD	143.45		200.50		360.24*	
Source of Exchange Rate	Original Report		Central Bank of Sri Lanka		Central Bank of Sri Lanka	

Note: * Exchange rate is the average rate for June 2022. USD values are only indicative, because exchange rates are volatile.

Source: Authors' calculations.

7. REFERENCES

Thibbotuwawa, M., Jayawardena, P., Arunatilake, N., & Gunasekera, N. (2015). *Living Wage Report: Sri Lanka, Estate Sector, Context Provided in the Tea Sector*. Global Living Wage Coalition. Available online: <https://www.globallivingwage.org/wp-content/uploads/2019/07/Sri-Lanka-Living-Wage-report.pdf>