

Living Wage Update Report: Estate Sector, Sri Lanka, June 2023

Living Wage Update Report No. 23-04-06



**Cost of decent standard
of living for a family**

**LKR 76,266
(USD 233)**



**Living Wage
per month**

**LKR 47,464
(USD 145)**



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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 2023, taking into account inflation and changes in payroll deductions since the last living wage update report published in June 2022 (Andersen, Medinaceli, Gonzales, Anker & Anker, 2022).

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 2023. This update takes into account the amount of inflation since the last update report in June 2022 (Andersen, Medinaceli, Gonzales, Anker & Anker, 2022). To achieve this, the June 2022 net living wage and family living income expenses are adjusted to June 2023 by inflation. Without accounting for inflation, the net living wage estimated in June 2022 would not be sufficient for workers to have a basic but decent standard of living in June 2023 because the purchasing power of the living wage would have considerably decreased. The gross living wage (aka living wage) is updated to June 2023 by also taking into account income taxes and mandatory deductions from pay that workers would need to pay on the updated 2023 living wage. This is done using laws in force in June 2023.

It is worth noting that the June 2023 living wage and family living expenses are adjusted based on the June 2022 update report (Andersen, Medinaceli, Gonzales, Anker & Anker, 2022) and not on the original study from December 2015 (Thibbotuwawa, Jayawardena, Arunatilake & Gunasekera, 2015), as is the usual practice. This is because the Department of Census and Statistics (DCS) adjusted the National Consumer Price Index (NCPI) and updated the NCPI with an index reference period 2013=100 to a new reference period of 2021=100. The DCS¹ only published these new series with a base 2021=100 starting in January 2022. To prevent underestimations, this report calculates the living wage and family living expenses for June 2023 using the new NCPI series based on the living wage update report for 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. LIVING WAGE ESTIMATE IN UPDATE REPORT, JUNE 2022

The net living wage was estimated as LKR 39,114 per month in the living wage update report for 2022. 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 43,080 per month in June 2022. The living expenses for a

¹ See http://www.statistics.gov.lk/InflationAndPrices/StaticInformation/MonthlyNCPI/NCPI_February_2023

basic but decent standard of living for a reference family in the original country report was estimated as LKR 68,839 in June 2022 (Andersen, Medinaceli, Gonzales, Anker & Anker, 2022).

4. INFLATION RATE USED FOR UPDATE

The National Consumer Price Index (NCPI) is collected monthly by Department of Census and Statistics (DCS)² in the Ministry of National Policies and Economic. The NCPI with an index reference period 2013=100 was updated to a new index reference period of 2021=100 from January 2023.³ This report uses this new NCPI to update the June 2022 living wage to June 2023.

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.⁴

5. RECENT LEVEL OF INFLATION

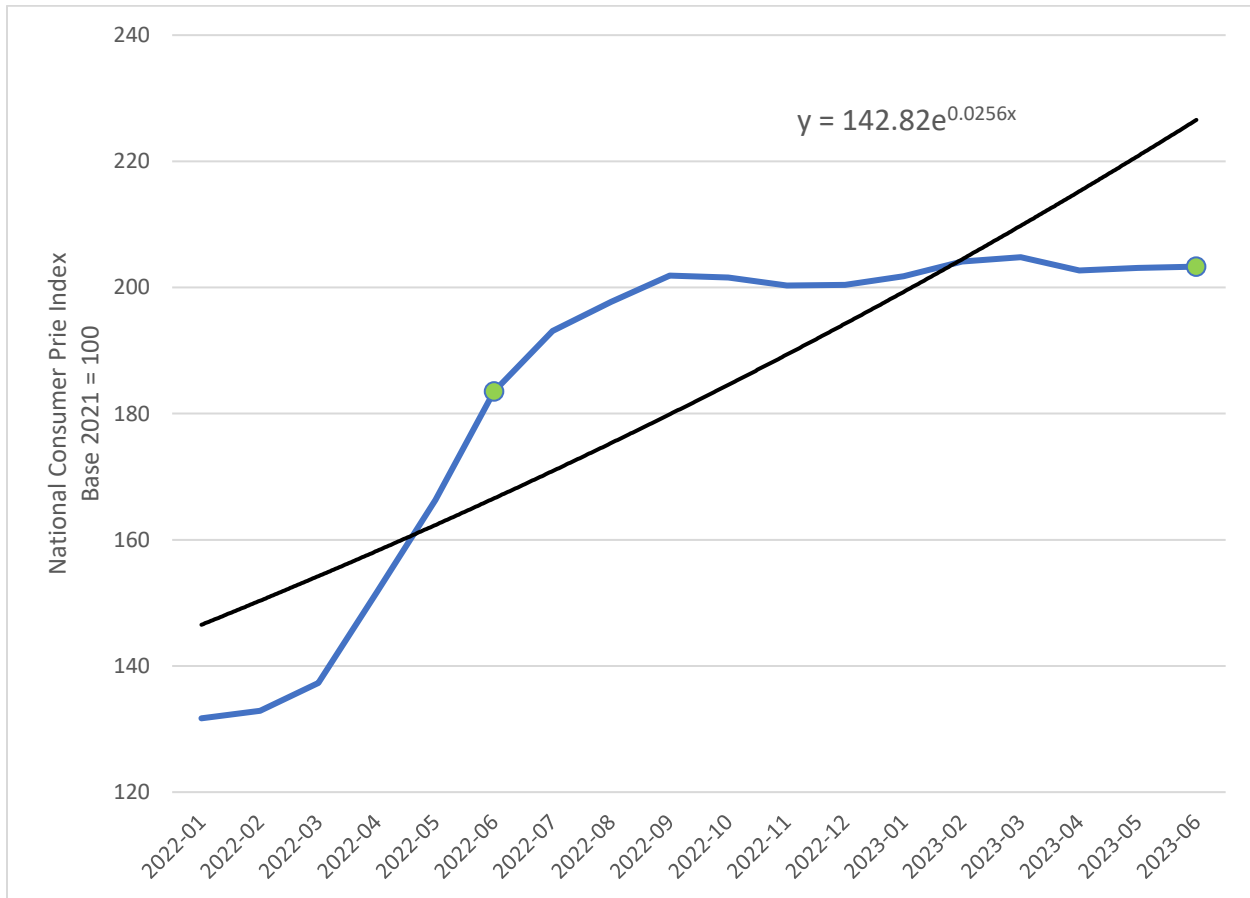
In 2022, Sri Lanka suffered one of its worst economic and political crises and as a result it experienced soaring inflation rates. However, it seems that inflation is now under control. Between June 2022 and June 2023, inflation amounted to 10.8% in Sri Lanka (see Figure 1). This is the inflation used in this report.

² See <http://www.statistics.gov.lk/InflationAndPrices/StaticInformation/MonthlyNCPI>.

³ See http://www.statistics.gov.lk/InflationAndPrices/StaticInformation/MonthlyNCPI/NCPI_20230321E.

⁴ 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.

Figure 1: National Consumer Price Index for Sri Lanka, January 2022 to June 2023



Notes: Green circles indicate the months of the 2022 and 2023 updates. The black line is the fitted exponential trendline.
 Source: Authors’ elaboration based on CPI data from Department of Census and Statistics (DCS).

6. 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 166 contribution to the Kovil Fund (religious activities) and LKR 166 contribution to the Labor Union. These deductions have changed since the original study and have been increased by inflation (10.8%). Finally, as in the original 2015 study report and last update report, no income tax (APIT) would be due on the living wage in 2023 because of

⁵ See https://epf.lk/?page_id=2.

personal tax relief as the first LKR 100,000 are exempt from taxes.⁶ As such, the mandatory payroll contributions breakdown is as follows:

Table 1: Breakdown of mandatory payroll deductions and income tax paid on living wage for June 2023

Component	Amount in LKR
Net Living Wage	43,334
EPF	3,797
Kovil Fund	166
Union Dues	166
PAYE	0
Gross Living Wage	47,464

Source: Authors' calculations.

7. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR JUNE 2023

The updated net living wage, or take-home pay, for June 2023 is LKR 43,334 (USD 132) per month. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is LKR 47,464 (USD 145) per month for June 2023.

Table 2 provides details of the original and the updated living wages and family living expenses.

Table 2: Living Wages and Living Expenses for the Estate Sector of Sri Lanka (in Sri Lankan Rupees and US Dollars)

Item	December 2015 Original Study Date		June 2022 Update Report		June 2023 Update Report	
	LKR	USD	LKR	USD	LKR	USD
Currency						
Family Living Expenses (1)	33,661	235	68,839	191	76,266	233
Net Living Wage (2)	19,126	133	39,114	109	43,334	132
Total mandatory deductions and income tax (3)	1989	14	3,746	10	4,129	13
4Gross Living Wage (2+3)	21,115	147	43,080	120	47,464	145
Exchange Rate to USD	143.45		360.24		327.60	
Source of Exchange Rate	Original Report		Central Bank of Sri Lanka		Central Bank of Sri Lanka	

Note: USD values are indicative only because exchange rates are volatile. ^a Average exchange rate for 02/01/23 to 16/10/23, since the exchange of the LKR against the USD was unusually low during the month of June 2023. (<https://www.cbsl.gov.lk/en/rates-and-indicators/exchange-rates/daily-indicative-usd-spot-exchange-rates>)

Source: Authors' calculations.

⁶ See <https://betterhr.io/blog/ird-sri-lanka-approved-new-apit-tax-calculation-for-2023-from-better-hr-hris-system/>.

8. REFERENCES

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