

THE PASS-THROUGH OF GLOBAL FOOD PRICE INFLATION TO DOMESTIC INFLATION: EMPIRICAL EVIDENCE FROM SRI LANKA

S. Sivarajasingham^{1*} and N. Balamurali²

¹Department of Economics and Statistics, Faculty of Arts, University of Peradeniya, Sri Lanka

*²Department of Social Studies, The Open University of Sri Lanka, Nawala, Sri Lanka
ssivarajasingham@gmail.com

In a globalized world, food price became an important determining factor of domestic inflation. This study investigated and assessed how international food price surge affects the domestic inflation process in producer and consumer prices in Sri Lanka.

The data set for this study was collected from the Central Bank and FAO website. The empirical results were derived by using confidence ellipse, non-parametric regression (Kernel), GARCH model, Granger causality test, co-integration and error correction technique.

The line graph showed that food price in Sri Lanka has been higher with an increasing trend compared to global food price dynamics. The line graph showed that pass-through is asymmetric. The series of world food price, domestic food price, non-food price, overall CPI in Sri Lanka were non-linear, non-stationary series with stochastic trend, I(1). The co-integration results confirmed that global food inflation, local headline inflation and domestic food inflation are co-integrated. Global food price did not influence statistically significant non-food price inflation in the short run. The global food price pass-through was statistically significantly influencing CPI food inflation, WPI food inflation and WPI inflation and Headline inflation in the long run and in the short run. However, the global food price inflation pass-through elasticity was more for domestic producer prices (WPI) than consumer prices in the long run as well as in the short run. The volatility of global food price inflation was also positively related to domestic inflation. The spillover effects from producer food inflation to domestic consumer food inflation, and headline inflation was also statistically significant in the long run as well as in the short run.

The results of this study have various policy implications for monetary policy, food and agricultural policy and trade policy for Sri Lanka. Policy attention needs to shift towards efforts to increase food production and lower the vulnerability of the poor.