IPS highlights Sri Lanka food inflation concerns

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ECONOMYNEXT – Sri Lanka needs to look at supply side factors that is driving inflation, particularly food price inflation, according to the Institute of Policy Studies, a think-tank.

Setting monetary policy in an environment of low growth and rising inflation would be difficult for the central bank, said Dushni Weerakoon, acting executive director of the IPS.

How to contain rising inflation was the main monetary policy concern, she said at the Institute of Policy Studies which launched its ‘State of the economy 2017’ report Tuesday and another report on tax policy in Sri Lanka.

“Monetary tightening when credit growth picks up is justified to prevent asset price bubbles,” Weerakoon said.

But to contain inflation, a more careful assessment of what’s driving inflation is needed.

“It’s not only demand-pull, but supply-push inflation – from tax hikes and agricultural setbacks,” Weerakoon said, referring to droughts and floods which have reduced harvests of key crops including rice and tea in recent months.

“Food inflation is rising rapidly and much faster than non-food inflation,” Weerakoon said. “So monetary tightening alone to contain inflationary pressure is not the answer. We need to look at supply-side answers, particularly in the case of food prices.”

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