DETERMINANTS OF SRI LANKA'S FOOD INFLATION: A QUANTILE REGRESSION ANALYSIS

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Food share is a high proportion of Sri Lanka's household expenses. Continuous food inflation is a challenge in the economy due to the eroding of household real income and malnutrition-related issues. This paper investigates the determinants of food inflation in Sri Lanka applying quantile regression and analyzes monthly data from January, 2015 to December, 2021. The contribution of this study to the literature is two-fold: (1) Investigating the determinants of food inflation in the Sri Lankan context, which had been neglected in the literature, particularly in a time of hyperinflation in food items, (2) Methodologically, mean-value based estimation approaches had been applied in the past studies, but they are not able to capture the tail dynamics. This analysis overcomes a hitherto prevalent limitations with the support of quantile regression. The effect of the agricultural Producer Price Index and oil prices on food inflation is positively and statistically significant across all the specified quantiles. In addition, World Food Price Index and exchange rate fluctuations are important drivers of food inflation at the 25th, 50th, 75th, and 90th quantiles, while the money supply influences food inflation at the 25th, 50th, and 75th quantiles. The research performs a series of robustness tests and confirms the validity of the main findings of the benchmark model. Substantial differences in the effect of money supply, exchange rate, agricultural Producer Price Index, World Food Price Index, and oil prices in different quantiles of food inflation exist, which is important for formulating policy for food security and safety net-related issues.

Keywords: Agricultural Producer Price Index, exchange rate, food inflation, narrow money supply