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Terms of trade in the paddy production sector in Sri Lanka

M W A C S Wijetunga*

**Hector Kobbekaduwa Agrarian Research and Training Institute, Colombo 07.*

'Terms of trade' is a common measure used to understand the performance of international trade. It is also used as a proxy for comparing relative prices of various goods. In this study, the performance of input prices as well as prices of paddy for the period between 1990 and 2009 are examined in detail with a view to ascertaining the extent of the terms of trade/price parity ratio of the paddy farmers.

The study shows that the producer price index had increased only by four fold. However, as in real price, producer prices of paddy have been sluggish and have shown an irregular pattern. The analysis indicates that the labour index had increased by seven fold while the fertilizer price index at the farm level had significantly declined (Rs.7/kg) to that of the base year, 1990. This is due to heavy subsidization of fertilizer. Moreover, both the agrochemical cost index and machinery cost index had increased by six-fold compared to the base year value. It was found that terms of trade in the Maha harvesting season is slightly lower than in the Yala harvesting season. Terms of trade in 2008 reached 0.79 in the Maha season (69 % increase) and 0.72 in the Yala season (37 % increase) which were the highest recorded terms of trade values after 1992 and 1993 respectively. But this deteriorated again in 2009. The annual average value of terms of trade shows an irregular movement which declined from 1 (1990) to 0.62 in 2009.

Both producer prices as well as input prices are significantly important in determining the terms of trade in paddy. Anyhow, producer prices of paddy had not increased commensurate with the level of rise in the prices of inputs. This had resulted in a down turn in profitability and terms of trade in the paddy sub sector during the period under consideration. Because of the increase in input costs and as the profit margins are not commensurate with the increase of total production costs, returns from paddy farming had declined over the last several years. This trend will have adverse implications on farmers who continue to farm paddy.

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chaturawijethunga@yahoo.com

Tel: 0112696981