

# IMPACT OF THE MAXIMUM RETAIL PRICE OF RICE ON RICE MARKET IN SRI LANKA

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Rice (*Oryza sativa*) is the staple food of more than half of the world population and it plays a vital role in Sri Lankan economy. Paddy is one of the main agricultural crops and paddy cultivation is the main livelihood activity of the rural people in Sri Lanka. The government has introduced different policy strategies to address the prevailing drawbacks of the rice sector. The maximum retail price scheme introduced for rice at wholesale and retail levels in 2008 is one of them. The rationale of this study is to probe the impact of the maximum retail price scheme of rice on rice market. Secondary data (2002 - 2014) on monthly farm gate, wholesale, and retail prices of rice were collected from various authenticated sources. All nominal prices were converted to real prices using the Colombo Consumer Price Index. Coefficient of Variation (CV) was used to test price stability. Prior to the introduction of the maximum retail price scheme, CV of “raw white”, “raw red”, “nadu” and “samba” varieties were 13%, 16%, 11% and 11% respectively. After 2008 those values became 12%, 12%, 11% and 12% respectively for the same varieties. Based on the results, it is possible to conclude that maximum retail price scheme has failed to stabilize market prices significantly. Market margin analysis revealed that, average market margin of “nadu” and “samba” were 56.80% and 58.96% respectively before 2008 and corresponding values became 53.45% and 55.13% respectively after 2008. Even though government attempts to reduce the market margin, it revealed that maximum retail price scheme is not an effective tool in reducing market margin significantly. A regression model was applied to examine the impact of retail price on producer price. Results revealed that 1% increase in retail price of “nadu” would increase producer price by 0.6%, while 1% increase in retail price of “samba” would increase producer price by 0.4 %. Therefore, it can be concluded that maximum retail price scheme is not an effective tool in reducing consumer price and the impact of retail price on producer price varies among rice varieties.

**Keywords:** Market margin, Maximum retail price, Price stability, Rice