

PRICES, WAGES AND EMPLOYMENT

OVERALL PRICE CHANGES

In 1989, the rate of increase in prices slowed down when compared with the previous year. The Colombo Consumers' Price Index recorded an annual average increase of 11.6 per cent in 1989 compared to 14.0 per cent in 1988. However, this deceleration in the rate of increase in prices was mainly concentrated in the first few months of the year. The second half of 1989 was characterised by a sharp rise in prices. The point to point increase in the Index at the end of the year (December 1989 over December 1988) was 15.1 per cent compared to a rise of 10.1 per cent in the period January 1989 over January 1988. At the primary market level too, deceleration in the rate of increase in prices was clearly discernible with the annual average of the Wholesale Price Index (WPI) rising by only 9.0 per cent compared to 17.8 per cent in 1988.

The temporary improvement in the security situation during the first quarter of 1989 contributed to the moderation in prices witnessed during that period. However, from mid-1989 set backs in the security situation resulted in disruption of production, trade and transport, and the consequent escalation in prices. Drought conditions, rise in the prices of major imported food items partly due to the exchange rate depreciation, and the revision in petroleum prices were the other factors that exerted pressure on the general price level.

Several monetary policy measures were adopted in 1989 to curb inflationary trends in the economy. These policy measures which included upward revision of Bank Rate and a partial ceiling on commercial bank lending, were successful in controlling monetary expansion and easing pressure on prices. In addition, the aggressive open market operations pursued during the year were effective in siphoning-off the excess liquidity in the economy to a considerable extent.

PRICES

Consumer Prices

The annual average of the Colombo Consumers' Price Index (CCPI) rose by 11.6 per cent in 1989 reflecting a deceleration in the rate of increase in prices when compared with the 14.0 per cent increase in 1988. However, the accelerated increase in prices during the latter part of the year pushed the point to point increase as at December, 1989 to 15.1 per cent.

The monthly movement of the index did not reflect the normal seasonal pattern. The temporary improvement in the security situation in the immediate aftermath of the Presidential Elections resulted in prices dropping in the first two months of the year. From March onwards, prices continued to rise steadily. The deterioration of the security situation in the third quarter of the year kept price pressure high during that period. A sharp upsurge in prices was witnessed in the last two months of the year.

The Sub-Index for food rose by 10.3 per cent on average, which was a lower increase when compared with the previous year (15.1 per cent). Approximately 62 per cent of the overall rise in prices could be attributed to higher food prices. Clothing prices rose sharply by 16.7 per cent, whereas the corresponding increase in 1988 was only 4.7 per cent. Prices of fuel and light items advanced by 12.0 per cent in the year under review, as against a 13.0 per cent increase in the previous year. The Sub-Index for the miscellaneous group rose by 15.8 per cent surpassing the 14.1 per cent increase recorded in 1988.

TABLE 1.34

Colombo Consumers' Price Index (1952 = 100)

	Average		Annual Average Percentage Change		Point to Point Percentage Change	
	1988	1989	1988 over 1987	1989 over 1988	December 1988 over December 1987	December 1989 over December 1988
All Items	744.1	830.2	14.0	11.6	15.0	15.1
Commodity wise						
Food	802.0	884.6	15.1	10.3	15.7	13.5
Clothing	419.8	490.0	4.7	16.7	5.6	32.8
Fuel & Light	1,535.1	1,718.9	13.0	12.0	16.0	11.1
Rent	109.8	109.8	-	-	-	-
Miscellaneous	742.6	860.2	14.1	15.8	15.9	19.7

Sources:- Department of Census and Statistics and Central Bank of Sri Lanka

Among food items, the increase in the price of rice was very sharp. Rice prices alone explained approximately 18 per cent of the overall price increase. Drought conditions, revision in the price of wheat flour and bread which are substitutes to rice and the disruption in production, trade and transport pushed the price of rice to very high levels. The price of bread and wheat flour which had remained unchanged since 1985 were revised upward on a number of occasions with a view to eventually eliminating the subsidy on them. Prices of sugar and milk powder also rose consequent to the depreciation of the exchange rate and increase in foreign prices. Sharp price increases were also recorded in respect of meat, eggs, pulses and dried chillies. Due to improved production, prices of coconuts and coconut oil dropped sharply during the year which helped to partly offset the sharp price increases recorded in other items. The prices of petrol and auto diesel which had remained unchanged since 1984 were revised twice during the year, and this had an additional indirect impact on the price increases of other items.

The prices of clothing items rose sharply during the year. This was the result of a combination of factors such as the higher energy cost, upward revision in wages, rising trend of foreign prices as well as the depreciation of the exchange rate.

The rise in the price of firewood was a major contributory factor towards the 12.0 per cent increase in the Sub-Index for fuel and light. Although the price of petrol and auto diesel increased, the price of kerosene remained unchanged during the year.

The excise duty on cigarettes and alcohol were revised several times during the year, and the higher prices of these items had a significant impact on the Sub-Index for the miscellaneous group. In addition, within the miscellaneous group, the prices of medicine, educational requisites, newspapers and laundry charges also rose during the year.

Wholesale Prices

Price movements at the primary market level are monitored by the Wholesale Price Index (WPI). In 1989, the annual average of the WPI rose by 9.0 per cent. The corresponding increase in 1988 was 17.8 per cent. On a point to point basis (December 1989 over December

WHOLESALE PRICE INDEX

1974 = 100

MONTHLY

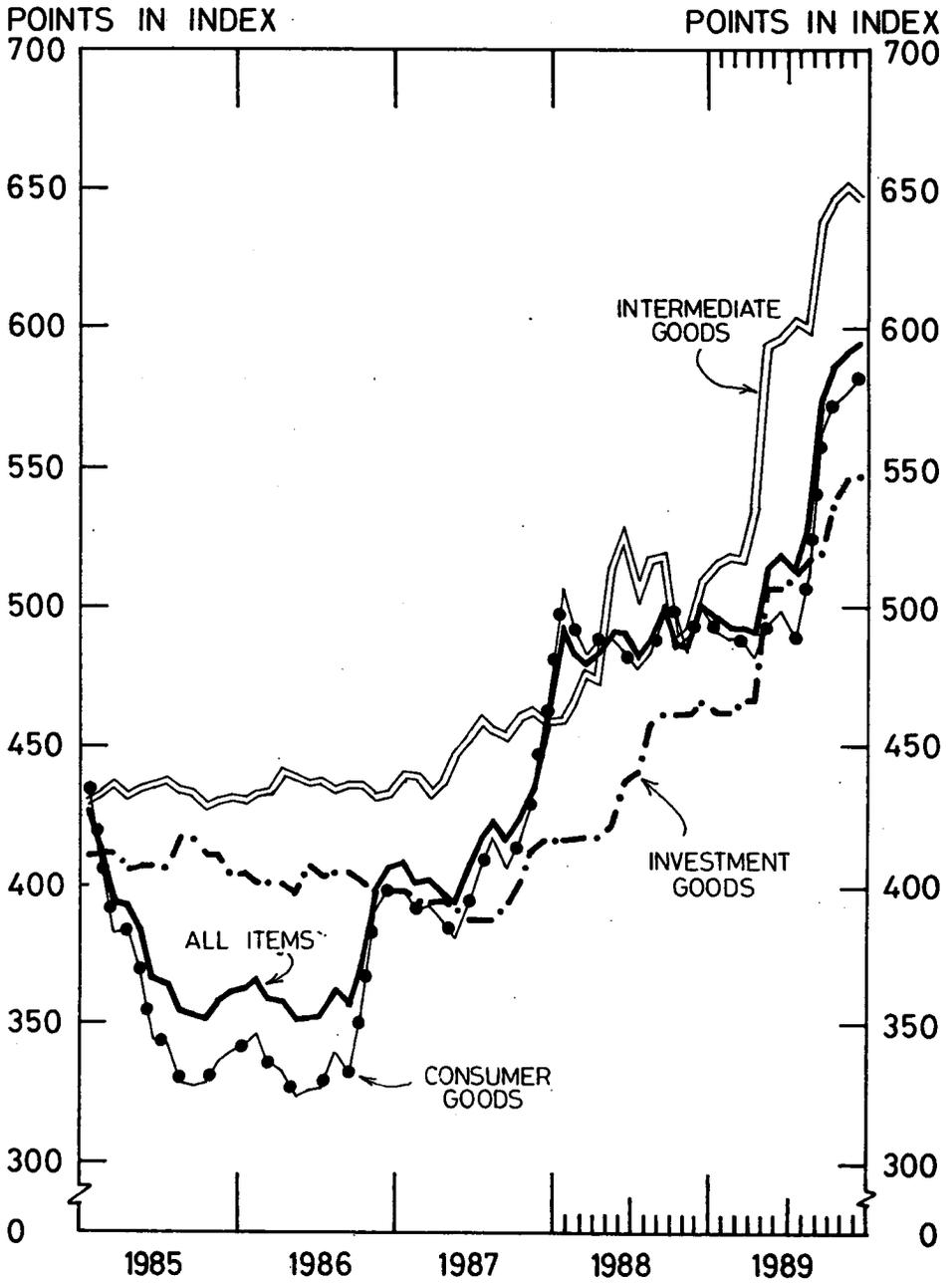


TABLE 1.35
Wholesale Price Index - (1974=100)

Item	Average		Annual Average Percentage Change		Point to point Percentage Change	
	1988	1989	1988 over 1987	1989 over 1988	December 1988 over December 1987	December 1989 over December 1988
Commodity Wise						
All Items	488.7	532.9	17.8	9.0	9.3	18.3
Food	471.9	493.3	22.3	4.5	7.9	16.1
Alcoholic Drinks	502.9	573.0	14.0	13.9	9.1	22.0
Textiles and Footwear	329.4	343.6	1.9	4.3	2.1	6.0
Paper Products	452.2	550.1	4.5	21.6	8.7	16.2
Chemicals & Chemical Products	259.4	291.9	14.1	12.5	23.0	6.7
Petroleum Products	685.1	762.3	-	11.3	-	22.8
Non-Metallic Products	658.2	735.9	10.8	11.8	9.2	12.8
Metal Products	358.6	469.6	11.2	31.0	19.5	43.9
Transport Equipment	321.3	395.9	2.4	23.2	15.9	17.2
Electrical Appliances & Supplies	346.1	427.8	12.2	23.6	19.4	37.2
Machinery	264.4	285.7	12.3	8.1	18.1	3.1
Fuel & Light	754.3	1002.9	4.3	33.0	24.7	22.4
Miscellaneous	827.1	1,051.2	27.4	27.1	23.5	36.2
Sector Wise No. I						
Domestic Group	383.3	466.0	12.6	21.6	17.0	23.6
Import Group	403.4	458.7	11.3	13.7	11.2	23.7
Export Group	826.9	772.1	28.3	-6.6	0.3	8.5
Sector Wise No. II						
Consumer Goods	489.6	519.5	20.4	6.1	8.7	16.1
Intermediate Goods	495.3	588.4	10.1	18.8	11.0	26.8
Investment Goods	439.3	503.6	10.7	14.6	12.1	17.2

Source:- Central Bank of Sri Lanka.

1988), the Index registered an increase of 18.4 per cent far surpassing the 9.3 per cent rise during the corresponding period in the previous year.

As in the case of the CCPI, the rise in the WPI was also concentrated in the second half of 1989. In fact, in the first few months of the year, a declining trend in the WPI was witnessed with the lowest level during the year being recorded in April (491.5). From August onwards, the Index advanced rapidly. The strengthening of the export price of tea was a major factor that pushed the Index up during the latter part of the year. The Index reached its maximum level of 594.1 in December, 1989.

Higher food prices contributed to around a third of the increase in the Index in 1989. Petroleum products, fuel and light items and items classified under the miscellaneous category were the other major contributors towards the rise in the Index.

The increase in the Sub-Index for food was a modest 4.5 per cent when compared with the 22.3 per cent rise in 1988.

The depressed prices of coconuts and coconut products played a major role in offsetting price increases of other major items like paddy, wheat grain, vegetables and dried chillies.

The Sub-Index for petroleum products which had remained unchanged from 1984 increased by 11.3 per cent as a consequence to the revision in the prices of petrol and auto diesel. The Sub-Index for fuel and light recorded a sharp increase of 33.0 per cent in 1989 as compared to 4.3 per cent in the previous year. The Sub-Index for miscellaneous items which rose by 27.4 per cent in 1988 continued to rise by 27.1 per cent in 1989. Sharp price increases were also recorded for chemicals and chemical products, metal products, non metallic products, transport equipment and electrical appliances and supplies during the year.

According to the sector-wise classification, the Sub-Index for domestic items showed a sharper increase of 21.6 per cent when compared with the rise of 12.6 per cent in 1988. Import prices increased by 13.7 per cent as compared with 11.3 per cent in 1988. Export prices fell by 6.6 per cent in contrast to the 28.3 per cent rise registered in the previous year.

The end-use classification of goods disclosed a very sharp increase of 18.8 per cent in the prices of intermediate goods. In the previous year, the corresponding increase was 10.1 percent. Prices of investment goods rose by 14.6 per cent surpassing the 10.7 per cent increase in 1988. In contrast, prices of consumer goods rose by only 6.1 per cent in 1989 compared with 20.4 per cent in the previous year.

WAGES

In 1989, wages of government employees remained static at levels reached in November 1988 when the recommendations of the Administrative Reforms Committee on Salaries and Cadres was fully implemented. On an annual average basis, nominal wage levels in 1989 were higher than those in 1988. However, real wage levels were eroded when compared to last year. In the organised private sector, minimum wages of several trades covered by wages boards were revised, resulting in an improvement in real wages for workers in Agriculture, and Industry and Commerce. Provisional data on wage levels in the unorganised sector indicate that unlike in the previous year when real wages deteriorated for most categories of workers, a notable improvement in real wages was observed for building construction activities and also for some major activities in plantation small holdings like tea plucking, coconut plucking and coconut husking.

Organised Sector

Following the implementation of the recommendations of the Administrative Reforms Committee on Salaries and Cadres, wage levels of government sector employees increased substantially in 1988. In 1989, there were no further changes in the wage structure of government employees. The cost of living allowance payable to employees also continued to remain frozen at the July 1988 level of Rs. 260/-.

The average nominal wage levels of government employees as measured by their wage rate index advanced by 8.2 per cent in 1989. The corresponding increase in 1988 was 31.1 per cent. In real terms, wages of government employees fell by 2.8 per cent over 1988, the year in which their real wages recorded the highest level in the past nine years. Nominal wage increases of All Non Executive Officers and Minor Employees in the government sector were 8.8 per cent and 7.4 per cent, respectively reflecting a deterioration of real wages by 2.2 per cent and 3.5 per cent, respectively. Average nominal wages of government school teachers were estimated to have increased by 11.0 per cent. In the previous year, this category of employees received a 34.0 per cent wage increase. Real wages of government school teachers remained almost unchanged when compared with 1988.

In the organised private sector, wages as measured by the minimum wage rate index for all workers in trades covered by wages boards increased by 15.6 per cent in nominal terms. In 1988, the corresponding increase was 20.9 per cent. The overall minimum wage increases for these employees were more than sufficient to compensate for inflation, and their real wages were estimated to have improved by 3.8 per cent in 1989. Among different categories, minimum wage increases of workers in Industry and Commerce were the highest, amounting to 23.3 per cent. In the previous year, this category of workers received a nominal wage increase of only 6.0 per cent. Real wages of workers in Industry and Commerce improved by 10.5 per cent in 1989 in contrast to a decline of 6.9 per cent last year. Wages of workers in agriculture rose by 15.2 per cent in 1989. In the previous year, wages of agricultural workers rose substantially by 25.2 per cent as a result of increases in wages in the plantation sector. In 1989, wage movements for this category was mainly due to the variable cost of living allowance payable to plantation workers, as well as the revision in minimum wages payable in the coconut growing and manufacturing trade. Real wages of workers in agriculture is estimated to have improved by 3.4 per cent in 1989. Wage levels of workers in services increased by only 7.1 per cent and their real wages deteriorated by 3.8 per cent in 1989. However, in the previous year, workers in services received a substantial wage increase of 16.7 per cent which was equivalent to an improvement in real wages of 2.5 per cent.

Among trades covered by wages boards, minimum wages were revised in 1989 in textile manufacturing, coir mattress and bristle fibre export, rubber export, leather and footwear manufacturing and hosiery manufacturing trades.

Unorganised Sector

Under the Country Wide Data Collection Scheme, information on daily wages in selected unorganised sector activities are obtained on a monthly basis from around 100 centres spread across the country. The areas which are covered by this scheme are, paddy cultivation, small holdings of tea, rubber and coconut and small scale building and construction activities.

WAGE RATE INDEX NUMBERS

DECEMBER 1978 = 100

QUARTERLY

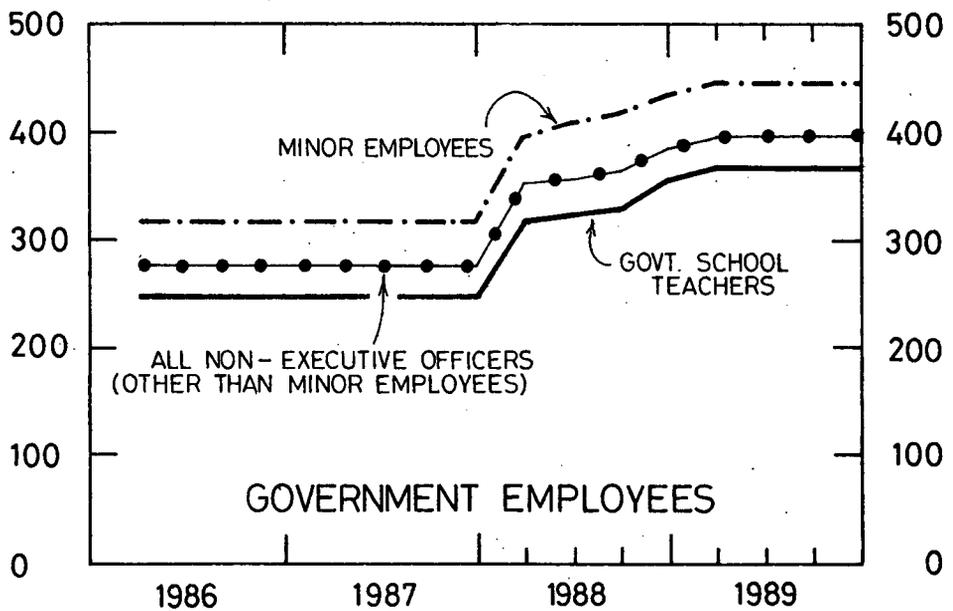
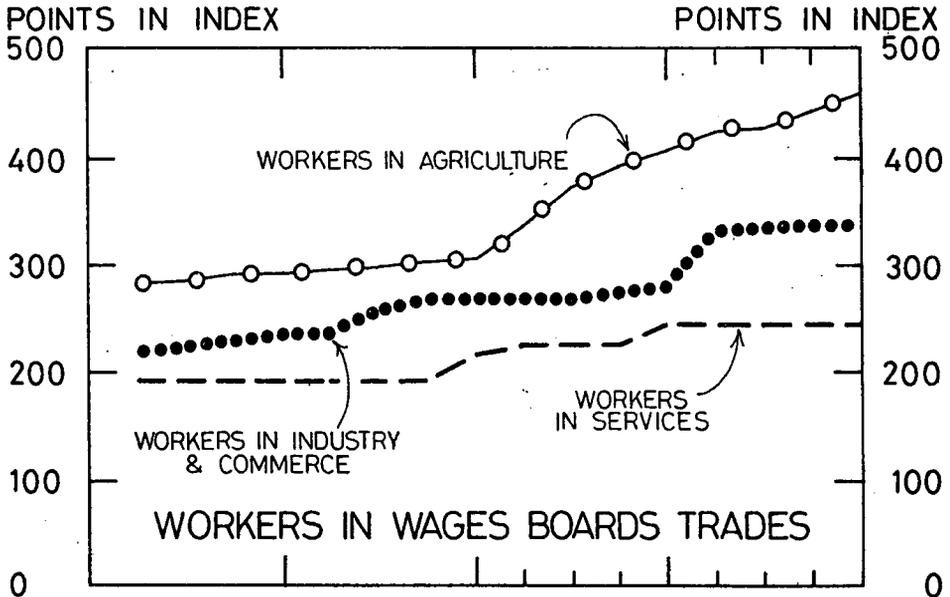


TABLE 1.36
Wage Rate Index Numbers
(December 1978 = 100)

	1988		1989		Percentage Change 1989 over 1988	
	Nominal Wage Rate Index	Real Wage Rate Index	Nominal Wage Rate Index	Real Wage Rate Index	Nominal Wage Rate Index	Real Wage Rate Index
1. Government Employees						
All Non Executive Officers	364.0	117.0	396.0	114.4	8.8	-2.2
Minor Employees	414.1	133.1	444.6	128.4	7.4	-3.5
All Central Government Employees	390.0	125.4	421.8	121.9	8.2	-2.8
Government School Teachers	331.5	106.6	367.8	106.3	11.0	-0.3
2. Workers in Wages Boards & Trades						
Workers in Agriculture	378.4	121.6	435.9	125.7	15.2	3.4
Workers in Industry & Commerce	271.7	87.4	334.9	96.6	23.3	10.5
Workers in Services	229.5	73.8	245.9	71.0	7.1	-3.8
Workers in Wages Boards & Trades	335.8	107.9	388.1	112.0	15.6	3.8

Sources:- Department of Labour
Central Bank of Sri Lanka.

* Combined index for workers in Agriculture, Industry and Commerce and Services.

Table 1.36 gives provisional information for 1989 for selected key activities in the unorganised sector. In paddy cultivation nominal wages were observed to have risen by between 5 to 14 per cent for the activities considered. However, real wages dropped for most activities except ploughing and transplanting (female), both of which recorded a marginal improvement in real wages when compared to the previous year. In coconut small holdings, wages for plucking grew sharply in 1989 with real wages improving substantially. In rubber cultivation, the rate of growth in nominal wages in 1989 was somewhat slower to that of 1988. Real wages for tapping deteriorated, while real wages for manuring improved moderately. Female wages in tea cultivation which grew substantially in 1988 continued to grow at a comparable rate in 1989. Real wages for these workers continued to improve. It is noteworthy that in the unorganised sector, building construction activities, nominal wages grew at a significantly higher rate than in 1988. Real wages improved for all categories of workers in building construction, in contrast to the previous year when a deterioration in real wage levels was observed in these activities.

TABLE 1.37

**All Island Average Daily Wage Rates in Selected Activities
in the Unorganized Sector 1988 - 1989**

Activity	Type of Labour	1988		1989**		Percentage Change 1989 over 1988	
		Nominal wage rate*	Real wage rate*	Nominal wage rate*	Real wage rate*	Nominal wage rate	Real wage rate
1.Paddy Farming							
Ploughing	Male	59.15	25.29	67.25	25.77	13.7	1.9
Sowing	Male	50.51	21.60	54.48	20.88	7.9	-3.3
Transplanting	Male	44.78	19.15	48.64	18.64	8.6	-2.7
Harvesting	Female	35.08	15.00	39.75	15.23	13.3	1.5
	Male	46.02	19.68	48.36	18.53	5.1	-5.8
	Female	35.98	15.39	39.42	15.11	9.6	-1.8
2.Coconut (Small Holdings)							
Plucking	Male	64.77	27.70	79.21	30.36	22.3	9.6
Husking	Male	64.71	27.67	73.03	27.99	12.9	1.2
3.Rubber (Small Holdings)							
Tapping	Male	38.91	16.64	42.04	16.11	8.0	-3.2
	Female	34.68	14.83	37.61	14.41	8.5	-2.8
Manuaring	Male	46.12	19.72	52.45	20.10	13.7	1.9
4.Tea (Small Holdings)							
Plucking	Female	30.51	13.05	35.21	13.49	15.4	3.4
Pruning	Male	53.43	22.85	57.52	22.05	7.7	-3.5
5.Building Construction							
Carpenter	Male	88.87	38.00	102.95	39.46	15.8	3.8
Unskilled Helper	Male	45.28	19.36	53.11	20.36	17.3	5.2
Master Mason	Male	84.99	36.34	97.51	37.37	14.7	2.8
Unskilled Helper	Male	44.74	19.13	52.30	20.04	16.9	4.8

Source:- Central Bank of Sri Lanka.

* The year 1980 was taken as the base year for computation.

** Provisional

EMPLOYMENT

According to provisional estimates, employment in both the public and private sectors increased moderately in 1989. Within the public sector, employment in government institutions increased while employment in semi-government institutions decreased marginally.

Estimates of public sector employment in government and semi-government institutions are based on the data collected by the Statistics Department of the Central Bank through the Public Sector Annual Employment Survey. Further, the estimates on government sub-sector employment have been reconciled with annual employment estimates of the Treasury. According to provisional data, the total public sector employment increased moderately by

3.9 per cent and stood at 1,338,200 as at end of 1989. This was entirely due to an increase in the level of employment in government institutions. Employment in this sub-sector which includes all employees in government ministries and departments was estimated at 588,500 as at end of 1989, an increase of 9.9 per cent over the previous year. The total number employed in semi-government institutions at 749,700 was a marginal decrease (0.43 per cent) from the level of employment in that sub-sector in 1988.

A breakdown by occupational categories revealed that manual workers remained the largest single group of employees in the public sector in spite of a substantial decrease in the number of estate workers belonging to the Janatha Estates Development Board (JEDB) and Sri Lanka State Plantations Corporation (SLSPC). However, the share of manual workers in total employment in the public sector declined to 40.5 per cent in 1989 from 42.4 per cent in 1988.

Professional, technical and related workers numbering 256,900 and clerical and related workers numbering 237,500 were the second and third largest categories of employees in the public sector in 1989. The level of employment in the former category increased by 14.9 per cent, while employment in the latter category increased only marginally. The sharp increase in the number employed as professional, technical and related workers in 1989 can be mainly attributed to the recruitment of about 35,000 teachers, nurses, mid-wives and some para medical personnel. In the government sub-sector, the largest number of employees was in this category which accounted for 40.6 per cent of the total.

Total number of service workers in the public sector increased by 14.1 per cent to 165,400 as at end of 1989. The significant increase in employment in this category can be attributed to the increased recruitments to defence services. The number employed as drivers and transport equipment operators increased by 1.5 per cent. In the government sub-sector, the increase in this category was 9 per cent. Employment in the manual workers category and agriculture, livestock, forestry and fishing and production and related workers category declined in 1989. The decrease in the number employed in the latter category was due to the redesignation of cultivation officers who now are classified under the category of clerical and related workers.

In the semi-government sub-sector, employment in all categories except the category of manual workers increased marginally or remained at the same level as in 1988. Sri Lanka Insurance, State Engineering, State Trading (Textiles) Corporations and Northern Regional Transport Board, National Savings Bank registered increases in employment, while employment in Colombo North and Southern Regional Transport Boards and Ceramic, State Mining and Mineral Development and Cashew Corporations decreased.

According to the Public Sector Employment Survey, 82.1 per cent of the government employees and 71.9 per cent of the semi-government employees were males. Women estate workers constituted the largest category of females followed by the clerical and related workers category. Regular employees accounted for 92 per cent in public sector employment.

Owing to the non-availability of an annual series of data on employment in the private sector, other indicators are used to assess employment in that sector. According to the Report of the Survey on Business Activities and Planned Investments conducted by the Central Bank of Sri Lanka, employment in the private sector companies was estimated to have increased by 15 per cent in the financial year 1986/87. The number of active accounts with the Employees' Provident Fund increased from 4,280,989 as at end of 1987 to 4,472,866 as at end of 1988 showing an increase of 4.5 per cent. The cumulative total of members in other Approved Provident Funds was 149,200 as at end of 1989.

Enterprises operating under the Greater Colombo Economic Commission (GCEC) have provided employment to 61,429 persons as at end of 1989 which was an increase of 12.5 per cent over the previous year. Of the total employed in GCEC enterprises, 70 per cent was employed in textiles, wearing apparel and leather products industries. The total number of projects in operation under the GCEC was 308 as at end of 1989. Of this, 181 were located within the Katunayake Investment Promotion Zone (IPZ), while 52 projects were at Biyagama IPZ. The balance 75 projects were located outside the GCEC area. Potential labour absorption capacity of the projects approved by the Foreign Investment Advisory Committee (FIAC) for 1989 was 4,999.

Since the termination of the Local Investment Advisory Committee (LIAC) in 1989, a single umbrella body has been established to promote and co-ordinate foreign investment and operations of the GCEC and FIAC. The purpose of this amalgamation was to expedite processing of new applications for investment with foreign collaborations. Of the total labour absorption in FIAC projects up to 1989 at 53,697, 64 per cent was employed in Manufacturing Industries.

In spite of unfavourable growth performance and continuing civil disturbances, steps were taken by the government to generate employment through self employment and poverty alleviation programmes in 1989. These programmes were aimed at helping the poor to build up their latent capabilities and their asset - bases through productive employment. Recipient families under these programmes were directly linked to a training cum production programme through which they were expected to offer a minimum of 24 days of labour per month on productive activities. An important feature of these programmes was that the entire public sector including corporations adopted poverty alleviation as an important component in providing new employment. Credit facilities provided by various loan schemes introduced by state banks too were geared towards increasing self employment opportunities during 1989. The demand for skilled and unskilled labour by foreign countries showed a substantial increase as reflected in a 20 per cent rise in foreign job order approvals by the Sri Lanka Bureau of Foreign Employment.