

6. PRICES AND WAGES

6.1 Prices

Four major indicators are available to measure general price trends in Sri Lanka. They are the Colombo Consumers' Price Index (CCPI) based on a 1949/50 consumption basket of the working class in Colombo, the Greater Colombo Consumers' Price Index (GCPI) based on a 1985/86 consumption basket of the lowest 40 per cent of income earners in the Greater Colombo area, the Wholesale Price Index (WPI) based on 1974 weights and the GNP implicit price deflator (GNPD) which is derived as the ratio of GNP at current prices to GNP at constant prices. The first three indices have their limitations and weaknesses as overall price indicators. The most appropriate indicator to measure the change in the overall general price level is the GNPD. The GNPD however, is available only once a year. It has been customary to use the CCPI as the broad indicator to measure inflation in Sri Lanka by the private sector, trade unions and the Government for all practical and policy purposes.

TABLE 6.1
Annual Average Price Changes (%)

	CCPI	GCPI	WPI	GNPD
1980	26.1	-	33.7	18.2
1981	18.0	-	17.0	20.6
1982	10.8	-	5.5	10.2
1983	14.0	-	25.0	14.7
1984	16.6	-	25.6	17.4
1985	1.5	-	-15.2	0.8
1986	8.0	-	-2.9	5.5
1987	7.7	-	13.4	6.8
1988	14.0	-	17.8	11.5
1989	11.6	-	9.0	9.7
1990	21.5	24.6	22.2	20.0
1991	12.2	11.5	9.2	11.2
1992	11.4	9.4	8.8	10.0
1993	11.7	8.4	7.6	9.5
1994	8.4	4.8	5.0	9.4
1995	7.7	3.9	8.9	8.3
1980-1984 (a)	16.4	-	18.2	15.8
1985-1989 (a)	6.8	-	9.9	5.1
1990-1994 (a)	12.4	10.1	9.2	11.5

Sources: Department of Census & Statistics
Central Bank of Sri Lanka

(a) Percentage changes are geometric averages.

When the past 16 year period is considered, double digit inflation rates as measured by the CCPI were registered during the period 1980 - 84. The period 1985 - 1987 saw a drop in the inflation rates to single digit levels. Persistent double digit inflation as measured by the CCPI became a

worrisome feature once again after 1988, the annual average inflation during the ensuing 5-year period being 13.6 per cent. In 1994, there was a notable reduction in inflation to 8.4 per cent and in 1995, there was a further drop to 7.7 per cent. It is noteworthy that inflation has declined during the last 5 years from a peak of 21.5 per cent in 1990 and that 1995 was the second successive year to record a single digit increase in the index after 1987. The GCPI and the GNPD also recorded a significant deceleration in inflation during 1995.

This phenomenon of lower inflation in 1995 was partly attributable to reductions in certain key administered prices as well as improved supplies of basic consumer goods in the market, which is indicated by the moderately high rate of economic growth. Reduction in high tariff protection and a dynamic trade policy followed by the public sector trading organisations in moderating seasonal fluctuations, in keeping with a strong commitment by the Government to price stability in several policy statements, also contributed to lower inflation in 1995. However, the inflation rates were on an upward trend towards the latter part of the year. The tapering off of the effects of the subsidised wheat flour price, faster depreciation of the exchange rate and a high rate of monetary expansion all contributed to an upward trend in the average inflation during the fourth quarter of 1995. Similarly, on a December to December basis, the inflation as measured by the two consumer price indices, following a dip in 1994, registered higher increases in 1995.

The WPI, which measures prices at the primary market level, indicated an acceleration in the rate of price increase from 5.0 per cent in 1994 to 8.9 per cent in 1995. This reflected the greater sensitivity of this index to price increases of major export and import items during the year. The point to point increase in the WPI at end 1995 was 17 per cent, following a decline in 1994 as in the case of the consumer price indices.

The price reductions of wheat flour, bread and kerosene effected in the latter half of 1994 continued to exert a partial impact on the overall inflation in 1995. Had the prices of these three items been left unchanged at mid-1994 levels, the rate of increase in the CCPI in 1995 would have been as high as 9.9 per cent. The increase in the supply of some major agricultural commodities such as paddy, coconuts and onions as a result of favourable weather conditions, and the importation of major food commodities during periods of shortages were other factors responsible for containing the price increase during the year. Due to these reasons, the seasonally high prices, generally observed towards the end of year, were not seen in 1995.

TABLE 6.2
Colombo Consumers' Price Index
(1952=100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1994	1995	1994	1995	Dec. 1994	Dec. 1995
All Items	100.0	1527.4	1644.6	8.4	7.7	4.2	11.5
Commodity-wise							
Food	61.9	1654.1	1768.1	8.9	6.9	3.6	11.2
Clothing	9.4	795.7	803.9	1.7	1.0	0.2	1.4
Fuel & Light	4.3	3131.6	3322.4	14.7	6.1	1.0	12.9
Rent	5.7	109.8	109.8	-	-	-	-
Miscellaneous	18.7	1578.7	1800.6	5.9	14.1	9.7	15.6

Sources: Department of Census & Statistics
Central Bank of Sri Lanka

Colombo Consumers' Price Index

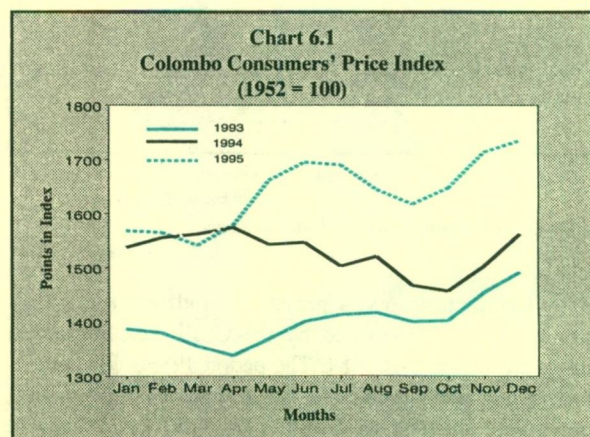
The behaviour of the CCPI during the year reflected partly the seasonal patterns. In line with the seasonality in production, the index declined during February - March (Maha harvest) and again during August- September (Yala harvest) in 1995. From September 1995 onwards, prices increased at a faster pace due to the gradual factoring out of the effect of the previous year's administrative price reductions and the partial removal of the wheat flour subsidy.

The food category, by far the most important category in the index, registered an annual average increase of 6.9 per cent in 1995 compared to an 8.9 per cent increase in the previous year. The prices of wheat flour and bread, which were reduced sharply in the second half of 1994, remained low until the latter half of September 1995. Thereafter, during September to November 1995, the prices of wheat flour and bread were revised in stages to reach Rs.11.95 per kg and Rs. 5.00 per loaf, respectively from Rs.7.95 per kg and 3.50 per loaf, respectively. The low prices of wheat flour and bread which prevailed for a considerable part of 1995 had a significant influence on subduing the price increase of rice. Coupled with this, the record paddy harvest further helped to keep rice prices low during the year. Prices of several other major food items such as coconuts, potatoes and onions declined in 1995 when compared to the previous year. While the enhanced supply on account of the increased production of coconuts and onions was responsible for the decline in the prices of these items, the availability of imports in the market was responsible for the decline in the price of potatoes. Prices of fresh fish, which dropped sharply at the beginning of 1995 due to increased supply, rose substantially thereafter, due to the disruption of fishing activities in the North and East on account of the resumption

of hostilities and the ban on light course fishing. Prices of most varieties of vegetables, meat and green gram also rose significantly during the year.

In the fuel and light category, prices rose by 6.1 per cent in 1995 compared with 14.7 per cent in 1994. The price of kerosene, which was reduced in late 1994, remained unchanged throughout 1995 exerting a dampening effect on prices in this category. Tariffs on electricity were also unchanged during the year. The increase in the price of firewood was the main contributory factor for the increase in prices in the fuel and light category.

In the clothing category, prices remained relatively stable as in 1994 due to an improved supply situation in the domestic market. However, in the miscellaneous category, prices rose sharply by 14.1 per cent during the year. The increase in the prices of betel and arecanut, newspapers and laundry charges were the major contributory factors to the acceleration of prices in the miscellaneous category.



Greater Colombo Consumers' Price Index

The Greater Colombo Consumers' Price Index (GCPI) is an alternative consumer price index computed by the Department of Census and Statistics since 1989. This index has a wider geographic and item coverage than the CCPI. As in the previous years, the GCPI showed a significantly lower increase in prices in 1995 as compared with the CCPI.

and miscellaneous categories registered lower increases in 1995.

Wholesale Price Index

The Wholesale Price Index (WPI) measures the movements of prices in the primary market. The trend in this index is largely influenced by changes in the prices of major

TABLE 6.3
Greater Colombo Consumers' Price Index
(January to June 1989 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1994	1995	1994	1995	Dec.1994	Dec. 1995
All Items	100.0	172.6	179.3	4.8	3.9	1.4	7.5
Commodity - wise							
Food & Drinks	69.3	179.1	183.2	4.0	2.3	-	6.6
Liquor, Tobacco and Betel & Arecanut	3.8	194.9	228.7	8.2	17.3	9.9	20.8
Housing	8.9	109.5	109.7	0.2	0.1	0.2	0.2
Fuel & Light	5.4	184.8	200.5	17.0	8.5	6.2	13.1
Clothing & Footwear	2.8	197.8	210.5	3.9	6.4	5.6	4.2
Personal Care and Health Services,	4.9	165.3	182.7	6.7	10.5	5.0	16.5
Household Goods & Services							
Transport & Communication	2.8	164.3	167.6	0.5	2.0	-	2.3
Miscellaneous	2.1	149.9	162.9	11.6	8.7	16.0	5.0

Source: Department of Census and Statistics

This was due to differences in composition of weights in the two indices. The GCPI registered an increase of only 3.9 per cent in 1995 compared to a 4.8 per cent increase in 1994.

Food prices, as measured by the GCPI, increased by 2.3 per cent in 1995, as against a 6.9 per cent increase registered by the CCPI. The GCPI has relatively higher weights than the CCPI for cereal items, while the latter index has higher weights for items such as vegetables and fish which registered sharp price increases in 1995. These differences in weights were mainly responsible for the two indices registering different rates of increase during the year. Nevertheless, the trends depicted by both indices moved in similar directions in 1995.

Prices in the liquor, tobacco, betel and arecanut category rose by 17.3 per cent in 1995 as compared with a much lower increase of 8.2 per cent in the previous year. Prices in the clothing and footwear, personal care and health services, household goods and services and transport and communication categories increased faster in 1995 as compared with 1994. In contrast, prices in the fuel and light

primary exports such as tea, rubber and coconut as they have substantial weights in the index. The WPI rose at a much higher rate of 8.9 per cent in 1995 as compared with an increase of 5.0 per cent in 1994. The increase in 1995 reflected the improvement in the prices of major exports, particularly tea and rubber, and import prices. Of the commodity-wise sub groups of the WPI, the food,

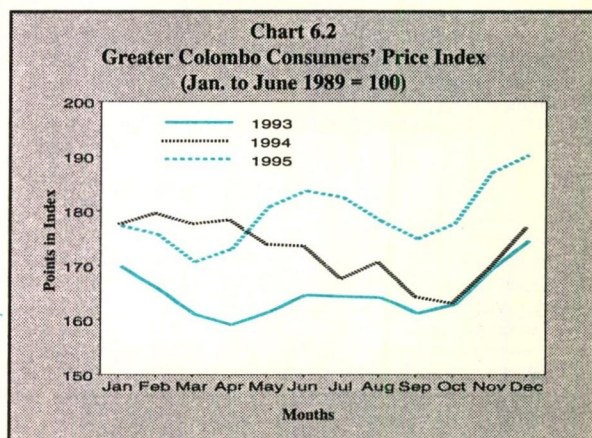


TABLE 6.4
Retail Sales Prices of Selected Food Items (All Island)

Item	Unit	Prices in Rupees			Percentage Change	
		1993	1994	1995	1994	1995
Rice (ordinary par boiled)	Rs./Kg.	16.48	15.85	16.11	-3.8	1.6
Bread, 450 gm.	Rs./loaf	4.83	4.66	3.81	-3.5	-18.2
Egg, (ordinary)	Rs./egg	2.74	2.95	3.28	7.7	11.2
Coconut, (medium size)	Rs./Nut	7.29	6.04	5.45	-17.1	-9.8
Vegetables						
Bitter Gourd	Rs./Kg.	19.7	24.91	26.7	26.4	7.2
Cabbages	Rs./Kg.	17.63	21.68	24.87	23.0	14.7
Carrots	Rs./Kg.	23.88	30.93	33.6	29.5	8.6
Green Beans	Rs./Kg.	22.75	28.97	30.01	27.3	3.6
Leeks	Rs./Kg.	24.53	30.49	33.44	24.3	9.7
Potatoes	Rs./Kg.	44.64	52.04	47.57	16.6	-8.6
Red Onions	Rs./Kg.	37.9	49.61	40.34	30.9	-18.7
Dried Chillies (Gr. 1)	Rs./Kg.	119.99	110.61	122.28	-7.8	10.6
Sea Fish						
Kelawalla	Rs./Kg.	107.4	112.25	128.69	4.5	14.6
Mullet	Rs./Kg.	75.66	86.66	92.87	14.5	7.2
Hurulla	Rs./Kg.	64.44	68.97	72.63	7.0	5.3
Salaya	Rs./Kg.	48.55	50.00	53.59	3.0	7.2

Source : Department of Census and Statistics

miscellaneous products, chemicals and chemical products and fuel and light categories were largely responsible for the increase in the index during the year. However, it should be noted that although the overall index showed an accelerating trend in prices, the domestic group registered a price deceleration, displaying a trend consistent with those of the consumer indices.

The sub-category of food recorded a moderate price increase of 5.7 per cent in 1995 as against a decline of 1.3 per cent in the previous year. The improvement in the price of tea was a major factor responsible for the acceleration in prices within the food group. Prices in the sub groups of alcoholic drinks, textiles and footwear, paper products, chemical and chemical products and transport equipment

TABLE 6.5
Wholesale Price Index (1974 = 100)

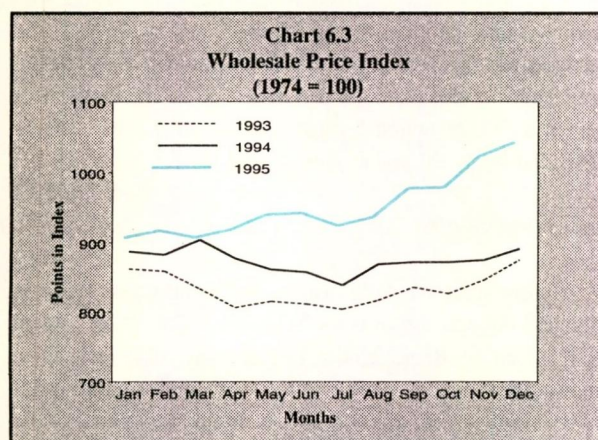
Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1994	1995*	1994	1995	Dec. 1994	Dec. 1995
All Items	100.0	873.4	950.7	5.0	8.9	1.8	17.0
Commodity Wise							
Food	67.8	760.4	803.9	-1.3	5.7	-4.3	22.3
Alcoholic Drinks	2.86	969.2	1,101.2	1.4	13.6	-	16.6
Textiles & Footwear	4.02	482.9	577.2	6.8	19.5	4.0	22.7
Paper Products	1.37	761.6	948.0	2.2	24.5	-0.1	45.9
Chemicals & Chemical Products	5.16	550.4	636.3	1.5	15.6	3.4	13.3
Petroleum Products	6.42	1,295.0	1,314.8	4.4	1.5	-7.7	8.9
Non-Metallic Products	1.78	1,896.1	2,112.6	21	11.4	14.3	9.3
Metal Products	0.93	698.2	698.7	5.9	0.07	0.1	0.2
Transport Equipment	0.80	682.2	844.6	3.4	23.8	5.8	27.4
Electrical Appliances & Supplies	0.96	691.8	752.9	8.9	8.8	10.2	6.6
Machinery	1.33	547.0	580.0	11.0	6.0	6.3	4.5
Fuel & Light	1.79	1,739.3	2,112.2	33.0	21.4	44.2	8.6
Miscellaneous	4.78	2,050.5	2,446.5	38.5	19.3	31.3	2.9
Sector Wise No. I							
Domestic Group	50.31	833.6	894.6	13.0	7.3	8.6	9.0
Import Group	27.17	702.0	775.7	4.5	10.5	-5.8	24.1
Export Group	22.52	1,169.1	1,287.3	-5.4	10.1	-3.0	23.0
Sector Wise No. II							
Consumer Goods	75.3	818.8	875.3	0.6	6.9	-1.6	19.4
Intermediate Goods	20.52	1,029.1	1,176.4	17.7	14.3	10.6	12.0
Investment Goods	4.18	1,094.8	1,205.0	16.7	10.1	11.5	7.8

* Provisional

Source: Central Bank of Sri Lanka

accelerated during the year. In particular, the revision in the price of fertiliser had an impact on the rise in prices in the chemical products category. Prices in the fuel and light category and the miscellaneous category, although decelerated relative to 1994, continued to show substantial increases of 21.4 per cent and 19.3 per cent, respectively, in 1995. The significant improvement in the price of rubber was a major contributory factor to the increase in the miscellaneous category, while higher prices of firewood contributed to the rise in the fuel and light category.

According to the sectoral classification, prices in the domestic group, which had risen by 13.0 per cent last year,



grew by a relatively lower rate of 7.3 per cent in 1995. Prices in the import category, which increased by 4.5 per cent during the previous year, rose further by 10.5 per cent in 1995. The increase in the price of wheat grain made a significant contribution towards the rise in prices in the import category. Prices in the export category rose by 10.1 per cent in 1995 in sharp contrast to a 5.4 per cent decline

recorded in 1994, owing to the improvement in the prices of primary exports.

In the end-use classification, prices of consumer goods rose by 6.9 per cent as compared with a marginal increase of 0.6 per cent in the previous year. Prices of intermediate goods, which had risen sharply by 17.7 per cent last year, rose further by 14.3 per cent in 1995. Prices in the investment goods category however, increased by 10.1 per cent, a slower increase as compared with an increase of 16.7 per cent registered in the previous year.

6.2 Wages

Prominent wage increases were observed in both the government and the private sector in 1995. As inflation was moderate in 1994 and 1995, workers in several sectors experienced a rise in real wages.

In the public sector, salaries of school teachers were increased substantially. In addition, the salaries of several other categories of employees were also revised upward. In the organised private sector, many Wages Boards revised their minimum wages during the year. In the informal sector, nominal wages of most activities such as building construction and smallholding cultivation rose more than the rate of inflation, thus raising the real wages.

Government Sector

Subsequent to the establishment of the Sri Lanka Teachers Service, salaries of government school teachers were revised substantially with effect from 1 January 1995, making a long due adjustment. This could be considered the most significant development in the wage structure of the

TABLE 6.6
Wage Rate Index Numbers
(December 1978=100)

	Nominal		Real		Percentage Change In 1995	
	1994	1995	1994	1995	Nominal	Real
1 Government Employees						
Central Government Employees	735.5	792.5	115.4	115.4	7.7	-
Non - Executives	692.7	749.4	108.7	109.2	8.2	0.5
Minor Employees	772.3	828.1	121.1	120.6	7.2	-0.4
Government School Teachers	595.6	760.5	93.4	110.8	27.7	18.6
2. Workers in Wages Boards Trades						
All Wages Boards Trades	712.4	739.5	111.7	107.7	3.8	-3.6
Workers in Agriculture	821.5	830.8	128.8	121.0	1.1	-6.0
Workers in Industry & Commerce	555.8	647.1	87.2	94.1	16.4	7.9
Workers in Services	431.4	456.7	67.6	66.5	5.9	-1.7

Sources: Department of Labour
Central Bank of Sri Lanka

public sector in 1995. Other developments in government sector wages during the year were the upward revision of salary scales in the Technician Grade, Class I Grade I and Class I Grade II of the labour grade with effect from January, the extension of the interim allowances granted to services such as Engineering, Veterinary and Agriculture to other parallel managerial services (with effect from July), the revision of salary scales of minor employee grades and motor vehicle drivers, and the rectification of further anomalies in the public sector salary structure effective from November 1995.

The revision in the salary scales of government school teachers raised their nominal wages, measured by the Wage Rate Index for Government School Teachers, by an unprecedented 27.7 per cent in 1995. When this is adjusted for the CCPI based inflation of 7.7 per cent for the year, the real wages rose by as much as 18.6 per cent. In comparison, the Wage Rate Index for All Government Employees rose by 7.7 per cent in 1995, as against an increase of 8.9 per cent in the previous year, thus leaving the overall real wage position unchanged. Within this category, wages of non-executive officers grew by 8.2 per cent a slower increase, when compared with an increase of 11.3 per cent in the previous year. However, real wages of non-executive officers continued to edge up by 0.5 per cent in 1995. Wages of minor employees rose by 7.2 per cent, slightly higher than the 6.0 per cent increase registered in the previous year. However, in real terms, wages of minor employees continued to decline in 1995.

Private Sector

There were several developments in the wage structure of workers covered by Wages Boards in 1995. Of the 34 active Wages Boards, 22 Boards raised minimum wages in trades covered by them. The objective of this revision was to bring the floor minimum wage up to Rs. 2,000 per month. The trades which revised minimum wages included Beedi Manufacturing, Building Construction, Biscuit and Confectionery Manufacturing, Wholesaleing and Retailing, Engineering, Bakery, Security Services, Brick and Tile Manufacturing, Rubber Export, Tanning and Footwear, Coconut Manufacturing, Textile Manufacturing, Janitorial Services, Cinema, Coir Fibre and Mattress Manufacturing, Hosiery Manufacturing, Motor Transport, Liquor and Vinegar Manufacturing, Nursing Homes, Tyre, Tube, Rubber and

Plastic Manufacturing, Hotel and Catering, and Ice and Aerated Water Manufacturing. In addition to these developments, a total of 27 Collective Agreements were also concluded during 1995 as compared to 20 in 1994, reflecting a positive development in the area of industrial relations.

The overall Minimum Wage Rate Index of Workers in Wages Boards rose by 3.8 per cent. However, when allowing for inflation, real wages declined by about 3.6 per cent. The increase in the overall Minimum Wage Rate Index was moderated due to the freezing of the Cost of Living Allowance, in State Plantation. Wages of workers in agriculture rose by only 1.1 per cent. Real wages for this category accordingly declined by 6.0 per cent. Workers in industry and commerce experienced a very high wage increase of 16.4 per cent in 1995 resulting in a significant real wage increase of 7.9 per cent. Workers in services gained a further nominal wage increase of 5.9 per cent in 1995, but their real wages deteriorated by 1.7 per cent.

Informal Sector

Information on daily wages in the informal sector is obtained through the Country Wide Data Collection System of the Central Bank. Under this scheme, daily wages in major activities in paddy cultivation and small holder cultivation of tea, rubber and coconut and small scale construction are collected from around 100 data collecting centres spread across the country, except in the Northern and Eastern Provinces.

According to provisional data for 1995, nominal wages increased significantly during the year while real wages improved in almost all major activities. In building construction activities, daily wages of carpenters and masons increased by 13 per cent and 12 per cent, respectively. Wages of helpers in carpentry and masonry increased by over 10 per cent. Daily wages in major activities in paddy cultivation rose at rates ranging from 9 to 15 per cent during the year and consequently, real wage improvements were recorded for these activities. In tea cultivation, daily wages rose by over 9 per cent for major activities. In rubber cultivation, wages increased by more than 13 per cent for most of the major activities. Wages in tapping rose by over 18 per cent reflecting a shortage of skilled tappers and improvement of rubber prices during the year.