

## 6. PRICES AND WAGES

### 6.1 Prices

The general price levels increased sharply in 1996. The Colombo Consumers' Price Index (CCPI), which is the official price index used for monitoring inflation in the country, increased by 15.9 per cent on an annual average basis in 1996, compared with 7.7 per cent in 1995. The Greater Colombo Consumers' Price Index (GCPI), which has a wider area coverage than the CCPI, increased by 14.7 per cent in 1996, compared with 3.9 per cent in 1995. The Wholesale Price Index (WPI), which measures price movements at the primary market level, increased by 20.5 per cent during the year. The higher rate of increase in the WPI compared with the consumer price indices was mainly attributed to the increases in export prices. The GNP Deflator (GNPD), which has the widest coverage of goods and services produced in the country, was estimated to have risen by 12.3 per cent in 1996, compared with 8.3 per cent in the previous year.

TABLE 6.1  
Annual Average Price Changes (%)

Year	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	8.8	8.3
1996	15.9	14.7	20.5	12.3

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

The price increases in 1996 were owing to temporary supply shortages of domestic food items, particularly paddy and coconut, due to the drought, corrective upward adjustments of administered prices of wheat flour, fuel including kerosene, electricity and transport fares, increased import prices, increased cost of production due to higher wages in some sectors and higher energy costs. Of these, the largest impact came from the rise in food prices, which accounted for more than 80 per cent of the increase in the

CCPI. In addition to the effect of the drought on food prices, a 20 per cent increase in the average international price of wheat compelled the Government to raise the domestic price of wheat flour to reduce the rising cost of the wheat flour subsidy. The increase in excise duties on alcohol and cigarettes also had a marginal impact on prices. These, and increases in other administered prices, raised consumer prices by 2.0 percentage points in 1996.

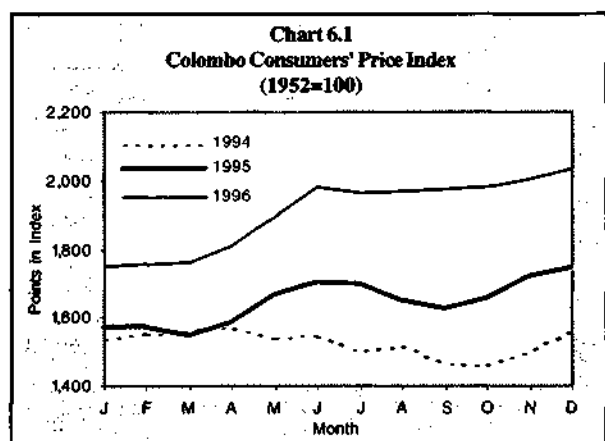
If the corrective price adjustments had not been made, the immediate increase in prices would have been much less. However, in this situation, the Government would have been compelled to resort to expansionary financing to meet the additional cost of the wheat flour subsidy. This would have led to a further build up of inflationary pressure in the economy, which would have prevailed over a much longer period.

Meanwhile, import duty concessions on sugar, rice and edible oil and removal of licensing on potatoes, onions and chillies which were granted as consumer relief measures helped to improve the availability of these food items and cushion the inflationary impact of the drought. In addition, the sharp deceleration of the rate of monetary expansion during the second half of the year helped to ease the demand pressure on prices. Price levels, which had increased during the first three quarters of the year and peaked in September, showed a sharp decline in the last quarter. All price indicators reflected this decline. The increase in the CCPI, which was 21.5 per cent for September 1996 over September 1995, declined to 16.8 per cent by December 1996. The reduction in the rate of consumer price inflation was more pronounced once the effect of the administered price changes was removed. The CCPI adjusted for these administered price changes, indicated a drop in inflation from 17.2 per cent in September 1996 to 12.2 in December 1996.

### Colombo Consumers' Price Index

An upward trend in the CCPI which began in mid 1995 and continued throughout 1996 was mainly attributed to higher food prices. The rise in food prices contributed to 83 per cent of the increase in the overall index in 1996. The sub index for food rose by 19.2 per cent, compared with 6.9 per cent in 1995. The sharp rise in the prices of major cereals and cereal based prod-

ucts such as rice, wheat flour and bread, contributed largely to the increase in food prices. The prices of wheat flour and bread which had been reduced from Rs.11.80 per kg. and Rs.5.00 per loaf, to Rs.7.45 per kg. and Rs.3.50 per loaf in August 1994, were revised upwards gradually in several stages during the second half of 1995 and again in April, July and August of 1996. Consequently, by end August 1996, the prices of wheat flour and bread had reached Rs.16.95 per kg and Rs.6.95 per loaf, respectively. Thus the average price of bread rose by about 58 per cent in 1996. A decrease in paddy production by 27 per cent in 1996 and the substitution effect of higher wheat flour prices pushed up the price of rice by more than 20 per cent. Overall, higher prices of major cereals and cereal products (rice, wheat flour and bread) accounted for as much as 36 per cent of the total increase in food prices and 30 per cent of the total increase in the overall price index.



Prices of coconuts and coconut oil rose by over 50 per cent during the year owing to a 7.0 per cent shortfall in coconut production. Notable price increases were recorded in chillies and red onions. In contrast, prices of

potatoes declined during the year as the supply position improved due to imports and higher domestic production. Price increases in most varieties of vegetables were moderate owing to extensive cultivation of vegetables in paddy lands due to the inadequacy of water for paddy cultivation.

Prices in the clothing and fuel and light categories registered single digit rates of increase in 1996. The sub index for clothing rose by a modest 2.2 per cent in 1996, compared with 1.0 per cent last year. In the fuel and light category, prices rose by 8.1 per cent, compared with 6.1 per cent last year. The increase in the price of kerosene from Rs.9.50 per litre to Rs.10.40 per litre from September 1996 and the rise in the price of firewood by about 7.0 per cent during the year were mainly responsible for the increase in prices in this category. The tariffs on electricity were also revised with effect from January 1996. Prices in the fuel and light category were estimated to have accounted for 4.0 per cent of the overall rise in prices during the year while prices in the clothing category accounted for less than 1.0 per cent.

The sub index for miscellaneous items rose by 10.8 per cent in 1996, compared with 14.1 per cent increase in the previous year. Higher prices for tobacco, betel and arecanut, liquor, newspapers, laundry services and increased transport fares mainly contributed to the rise in prices in this category. Prices in the miscellaneous category accounted for about 12 per cent of the overall rise in prices in 1996.

The seasonal behaviour in prices, which is normally observed in the monthly movement of the CCPI, was less pronounced in 1996 than in 1995. Although the Index declined in the months of February and March in 1995 on account of the Maha harvest, this pattern was not observed in 1996 due to the shortfall in the harvest. The CCPI registered increases in all months except July.

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

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change		Contribution to Increase in 1996 (%)
		1995	1996	1995	1996	Dec 1995	Dec 1996	
All Items	100.0	1,644.6	1,606.7	7.7	15.8	11.5	15.8	100
Commoditywise								
Food	61.9	1,768.1	2,107.6	6.9	19.2	11.2	20.7	83
Clothing	9.4	803.9	821.8	1.0	2.2	1.4	3.4	1
Fuel & Light	4.3	3,322.4	3,591.5	6.1	8.1	12.9	7.3	4
Rent	5.7	109.8	109.8	-	-	-	-	-
Miscellaneous	18.7	1,800.6	1,994.7	14.1	10.8	15.6	9.3	12

Source: Department of Census and Statistics  
Central Bank of Sri Lanka

## Seasonality of Consumer Prices

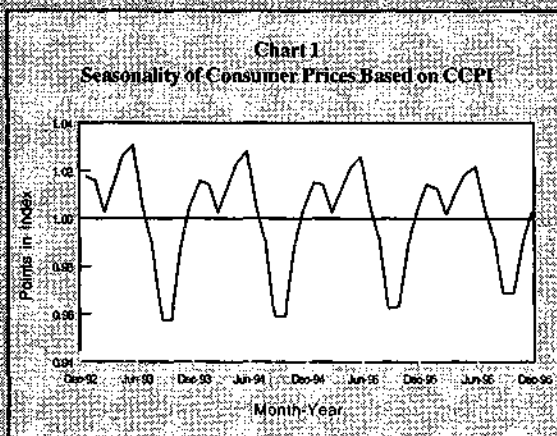
Box 6

Most macroeconomic variables exhibit some sort of cyclical behaviour that occurs on a regular calendar basis. This is termed as 'seasonality'. Recognition of seasonality in a series is important because it provides information about 'regularity' in the series that can aid us not only in making a forecast but also in pursuing appropriate economic policies. There are a number of techniques for identifying the seasonality of a series. The simplest is to construct a seasonal index and examine the variations of the series over time. Recognition of seasonality can also be made easier with the help of the autocorrelation function.

The general price level is one such macroeconomic variable that exhibits pronounced seasonality, particularly in developing countries such as Sri Lanka which experience frequent excess supply and demand conditions due to market imperfections. This is particularly the case when some goods which carry a large weight in the food basket of the consumer are subject to cyclical variations.

To examine the seasonality of the general price level in Sri Lanka, a seasonal index was constructed by computing the ratio of the seasonally unadjusted Colombo Consumer Price Index (CCPI) to a seasonally adjusted CCPI. In the seasonality adjusted series seasonal variation has been eliminated, while the long-run trend and short-run irregular fluctuations remain. The seasonal index computed for the past four years is plotted in Chart 1 which exhibits a near perfect seasonality over time. The underlying factors behind the seasonal variations of the price index come from both demand and supply side effects. The drop in the rate of inflation during February - March and July - September coincides with the two major harvesting periods (Maha and Yala, respectively) during which an excess supply of rice and vegetables is observed. On the other hand, the gradual increase in the rate of inflation during April - June and October - January is

due to higher demand for consumer goods during the two festive seasons (Sinhala/Hindu New Year and Christmas/New Year, respectively) at a time of depleting food stocks.



Econometric analysis shows that almost the entirety of the variation in the general price level in Sri Lanka is explained by variations in the prices of rice and vegetables which account for a sizable weight in the consumer's food basket. Estimation of a price equation via Ordinary Least Squares (OLS) reveals that a one percent increase in the rate of growth of rice prices leads to an increase in the inflation rate by 0.22 per cent, while a one per cent increase in the rate of growth of vegetable prices results in an increase of 0.13 per cent in the inflation rate.

Both producers and consumers could benefit by minimising large seasonal volatility in commodity prices. An open economic policy which allows free imports and increased economic integration of the domestic economy with the rest of the world, improved storage and marketing infra-structure, would help to minimise the seasonal price fluctuations.

The following equation was estimated via OLS with corrections for first order auto correlation for seasonally adjusted monthly data for the period January 1993 - December 1996

$$\ln \text{adj } P_{All} = C + \ln \text{adj } P_{Rice} + \ln \text{adj } P_{Veg} + AR(1)$$

$$7.43 \quad 0.22 \quad 0.13 \quad 0.98$$

$$(0.33) \quad (4.27) \quad (6.88) \quad (43.22)$$

$$R^2 = 0.99 \quad DW = 1.12 \quad F = 2.317$$

Corresponding t statistics are given in parenthesis

Where:

adj  $P_{All}$  = Seasonally adjusted price index for all items

adj  $P_{Rice}$  = Seasonally adjusted price index for rice

adj  $P_{Veg}$  = Seasonally adjusted price index for vegetables

## Greater Colombo Consumers' Price Index

In 1996, the Greater Colombo Consumers' Price Index rose by 14.7 per cent, compared with the 3.9 per cent increase in 1995. The GCPI has been consistently registering a lower rate of price increases than the CCPI. However, in 1996, the increase in the GCPI was closer to that of the CCPI than in the previous two years. This pattern of behaviour is due to the weight structures of the two indices. The GCPI has a higher weight for cereals and lower weights for vegetables and fish than the CCPI. Within the cereal group, the GCPI has a higher weight for rice while the CCPI has a higher weight for

changes resulted in an increase in both indices but the CCPI registered a higher increase owing to its higher weights for flour and bread of which price increases were higher in 1996.

The sub index for Food in the GCPI increased by 17.9 per cent in 1996, compared with an increase of only 2.3 per cent in 1995. Prices in the categories of liquor, tobacco, betel and arecanut, clothing and footwear, fuel and light and miscellaneous items decelerated during the year. The increases registered by the relevant sub indices were 9.6 per cent, 3.7 per cent, 7.6 per cent and 6.7 per cent, respectively, compared

**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	
		1995	1996	1995	1996	Dec. 1995	Dec. 1996
All Items	100.0	179.3	205.6	3.9	14.7	7.5	15.2
Commoditywise							
Food & Drink	69.3	183.2	216.1	2.3	17.9	6.6	18.5
Liquor, Tobacco and Betel & Arecanut	3.8	228.7	250.7	17.3	9.6	20.8	11.9
Housing	8.9	109.7	109.8	0.1	0.1	0.2	-
Fuel & Light	5.4	200.5	215.9	8.5	7.6	13.1	5.8
Clothing & Footwear	2.8	210.5	218.3	6.4	3.7	4.2	8.7
Personal Care and Health Services,							
Household Goods and Services	4.9	182.7	202.6	10.5	11.0	16.5	8.6
Transport & Communication	2.8	167.6	181.8	2.0	8.4	2.3	16.0
Miscellaneous	2.1	162.9	173.8	8.7	6.7	5.0	6.2

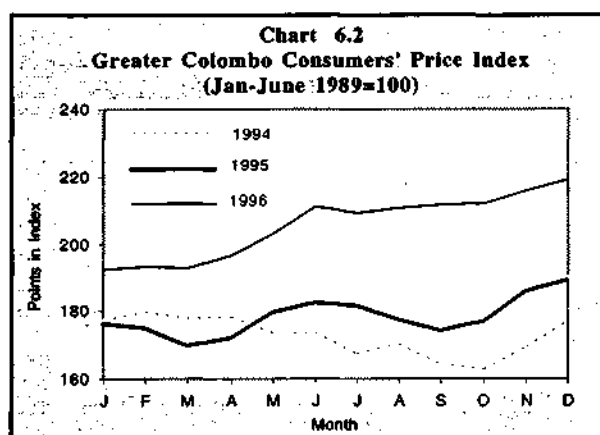
Source: Department of Census and Statistics

bread and wheat flour. In 1995, sharp increases in vegetables and fish led to a faster increase in the CCPI (7.7 per cent) than the GCPI (3.8 per cent). In 1996, while the rate of increase in the prices of vegetables was moderate, price increases in cereals were very sharp. Within the cereal group the price increases registered for wheat flour and bread (over 50 per cent) was higher than the increases registered for rice (20 to 30 per cent). These

with 17.3 per cent, 6.4 per cent, 8.5 per cent and 8.7 per cent, respectively, last year. In contrast, prices in the categories personal care, transport and communication increased by 11.0 per cent and 8.4 per cent, respectively, in 1996, compared with 10.5 per cent and 2.0 per cent, respectively, last year.

## Wholesale Price Index

In 1996, the Wholesale Price Index (WPI) increased very sharply by 20.5 per cent, compared with an increase of 8.8 per cent in 1995. The significant improvement in the prices of the major exports, tea and coconut, which have a relatively higher weight in the WPI than the CCPI or GCPI, was mainly responsible for the faster increase in the WPI than the two consumer price indices. Tea prices increased by rates ranging between 36 and 48 per cent, depending on the elevational categories, while coconut prices increased by 80 per cent. These items alone accounted for over 50 per cent of the total increase of the WPI in 1996.





## Box 7

**The Pettah Wholesale Food Market**

The Pettah market is the largest wholesale food market in the country. It is important not only as a central market serving the city of Colombo and its suburbs but also as a major distribution centre for both imported and locally produced commodities. The evolution of the Pettah market could be traced back to the Asian traders who lived and engaged in commercial activities in this area. Over time, this became a congested area with a network of streets and alleys where small shops offering a wide range of food and non-food items were located. Easy accessibility to transport facilities, a requisite for the development of a central wholesale market, contributed in a large measure to the establishment of the Pettah Food Market. The close proximity of the Colombo Harbour was also a major factor in determining its development.

In 1981, the Colombo vegetable market, which had been located behind the Colombo Kachcheri, moved into the well known Manning Storage Complex and is now the main vegetable exchange, influencing vegetable prices in practically every part of the country. The St. John's Fish Market is situated close to the Manning Market, as are numerous small shops dealing in other commodities such as rice, potatoes, onions, chillies and coconut oil. With the development of this central market, many other providers of informal services such as money lenders who complement the banking sector in providing trade finance, and handlers, who engage in loading and unloading activities, have located themselves in the Pettah area.

The Manning Market, which is perhaps the most prominent component of the Pettah Wholesale Food Market, consists of about 1,200 stalls which are rented to traders by the Colombo Municipal Council. Of these, 800 stalls are used for the vegetable trade, while the balance are engaged in trading in fruits and other items such as dried fish, meat, coconuts, eggs and general provisions. Around 200 lorries carrying vegetable products enter the Manning Market daily. Vegetables are supplied from producing areas mainly through "assembly agents" or collectors, who act as the link between the small scale producers located in all parts of the country and the wholesale traders in the market. In some cases, producers themselves bring their produce directly to the market. However,

this is possible mainly in the case of large scale producers who have access to transport facilities. Even in the case of small scale producers, although the trader and producer rarely meet, there exists a long standing relationship which is reflected in the manner in which trading takes place.

In the Manning Market, trading is done on a commission basis and therefore, the trader undergoes less risk than if trade were conducted on a profit basis. Producers send their produce to the market through collectors with a slip indicating the quantity and the trader to whom it should be delivered. The price is determined according to the demand and supply conditions prevailing in the market on that day. Each day, wholesale and retail buyers, from the suburban and outstation markets come to the Manning Market to obtain their supplies. Having a good knowledge of the price range in which they could sell each variety of vegetable, they make offers for purchase. Guided by these offers, and his knowledge of supply conditions, the wholesaler then decides the price for each variety of vegetable. Once the price is decided upon, the wholesaler deducts his commission (which is around 10 per cent in the case of vegetables) and other charges for transportation and handling (loading and unloading), and sends the remainder to the producer through the collector by cheque or cash. As producers usually split the sale of their produce among several traders, they receive an instant feedback if there is any variation in the prices given. This process, therefore, helps to minimise the price variations among traders in the market.

One may observe that the vegetable market in Sri Lanka tends to be supply driven. This could be expected given the perishability and the lack of storage facilities and limited processing industries available for vegetables. During the seasons when favourable weather conditions prevail, a glut could occur in the market. Consequently, as the demand for vegetables is fairly stable, (given the lack of storage facilities and processing facilities), prices tend to fall to such low levels that producers may not even be able to recover their cultivation costs. In such instances, either due to discouragement or due to lack of finances for the initial outlay required for the next crop, producers may desist from cultivating the

next crop, thereby causing a shortfall in production and pushing up prices in the next season. Thus, the price behaviour in vegetables tends to follow the classic economic principle, "Cobweb Theorem".

Opposite the Manning vegetable market are the well known "Cross Streets" in Pettah, (so called because of their official street name), which are occupied by other commodity dealers. Of these, merchants occupying the Fourth Cross Street deal mainly in rice. The Fifth Cross Street consists mainly of shops dealing in onions, potatoes, chillies and coconut oil. Most of the shop spaces in these streets are rented from private individuals while a few are owned by the Colombo Municipality.

Supplies of rice consist of both imported and local varieties. Local supplies are received from areas such as Polonnaruwa, Anuradhapura, Ampara and Tissamaharamaya, while imported supplies are received mainly from major private sector importers. Trading in rice is also done on a commission basis and the

### Box 7 (contd.)

commission is around 3 per cent. Trading in onions and potatoes too is conducted on a commission basis. However trading in dhal, sugar and coconut oil is done on a profit basis.

The new building for the St. John's Fish Market, constructed in 1983 by the Urban Development Authority (UDA), houses the central fish market for Colombo. This consists of 87 wholesale stalls and 105 retail stalls rented to traders by the UDA. Fish supplies from the Eastern, Western and Southern coastal areas are received in the market and the supply during the peak fishing seasons could be as much as 300 to 400 lorries per day. Wholesale trading in this market is also done on a commission basis, the commission varying in a range of 10 to 15 per cent, depending on the type of fish. A special characteristic that can be observed in this market is the high level of organisation, particularly with respect to the division of labour. Separate groups of workers are available for activities such as loading and unloading, cutting of fish and packing into boxes etc.

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

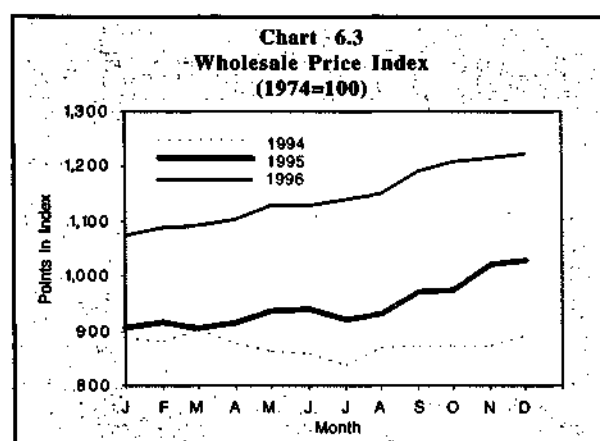
Item	Unit	Rupees			Percentage Changes	
		1994	1995	1996	1995	1996
Rice (Ordinary par boiled)	Kg.	15.85	16.11	20.80	1.6	29.1
Bread, 450 gm.	Loaf	4.66	3.81	6.05	-18.2	58.8
Egg	Each	2.95	3.28	3.40	11.2	3.7
Coconut (medium size)	Nut	6.04	5.45	6.82	-9.8	61.8
Vegetables						
Bitter Gourd	Kg.	24.91	26.70	28.18	7.2	5.6
Cabbages	"	21.68	24.87	23.68	14.7	-4.8
Carrots	"	30.93	33.60	33.58	8.6	-0.1
Green beans	"	28.97	30.01	29.81	3.6	-0.7
Leeks	"	30.49	33.44	32.09	9.7	-4.0
Potatoes	"	52.04	47.57	41.76	-8.6	-12.2
Red Onions	"	49.61	40.34	49.81	-18.7	23.5
Dried Chillies (Gr.I)	"	110.61	122.28	139.90	10.6	14.4
Sea Fish						
Kelawalla	"	112.25	128.69	135.03	14.6	4.9
Mullet	"	86.66	92.87	101.77	7.2	9.8
Hurulla	"	68.97	72.63	84.91	5.3	16.9
Salaya	"	50.55	53.39	60.61	7.2	13.5

Source: Department of Census and Statistics

The food sub index of the WPI which has a weight of 67.8 per cent increased by 30.1 per cent in 1996, compared with an increase of 5.2 per cent in 1995. In addition, the sharp increase in the price of paddy caused by the shortfall in the harvest and the enhanced demand for rice arising as a consequence of the cut back in the subsidy on wheat flour was also a major contributory factor for the rise in the sub index for food. Food prices

alone are estimated to have accounted for 84 per cent of the overall increase in the WPI in 1996.

Among other sub indices of the WPI, the prices of metal products and petroleum products accelerated, compared to the previous year, while all other sub indices registered lower rates of increase than in 1995. Prices of petroleum products rose by 4.6 per cent, compared to



1.5 per cent in 1995 due to the revision in the prices of petrol, kerosene and diesel at the end of September 1996. Prices of metal products rose by 11.1 per cent, compared with 1.2 per cent increase last year. Although, prices in the paper products, fuel and light and miscellaneous groups registered double digit increases of 10.7 per cent, 13.1 per cent and 10.0 per cent, respectively, in 1996, these increases were lower than the increases of these sub groups in 1995.

According to the sector-wise classification of the WPI, prices in the Domestic category rose by 11.7 per cent, a higher increase compared to the 6.8 per cent increase in 1995. Prices in the Import category also rose

by 11.6 per cent in 1996, compared with 10.1 per cent in 1995. The index for the Export category rose very sharply by 40.4 per cent, compared with an increase of 11.0 per cent in the previous year.

In the end-use classification, the sub index for the Consumer group increased by 25.4 per cent, compared with 6.4 per cent last year. In contrast, the sub indices for the Intermediate and Investment categories registered lower increases of 10.3 per cent and 5.6 per cent, respectively, compared to 15.4 per cent and 10.1 per cent, respectively, in 1995.

### Regional Price Variations

Prices of commodities vary across the country due to several factors. These include the cost of transport, characteristics of marketing channels, spoilage during transport and diversity in tastes which determine regional demand patterns. A part of these variations could be attributed to underdeveloped infrastructure. Table 6.6 shows the average retail prices for 1996 of several items in the Colombo, Kandy, Matara and Anuradhapura markets and their variations in comparison with the Colombo market. These data are based on the Countrywide Data Collection System (CWDCS) of the Statistics Department of the Central Bank. It is observed that items with a relatively low degree of perishability, such as rice, onions, dried chillies and eggs, have lower regional price variations when compared with perishable items such as vegetables. On aver-

**TABLE 6.5**  
**Wholesale Price Index**  
(1974 = 100)

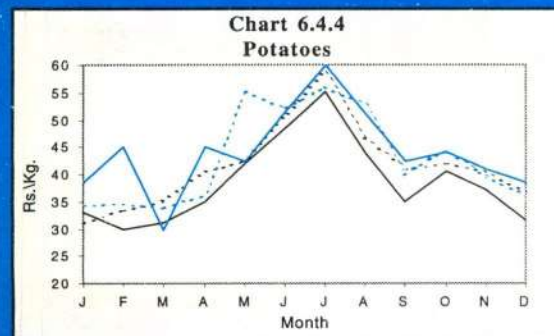
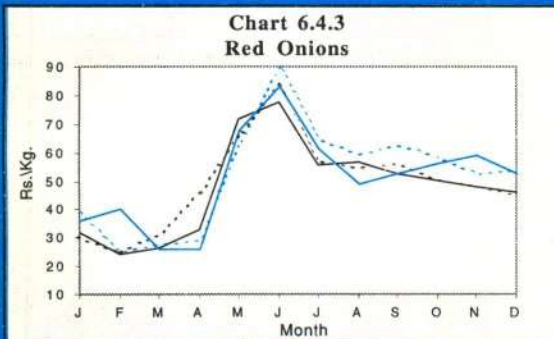
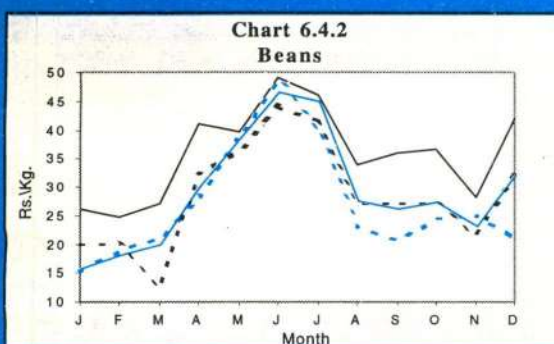
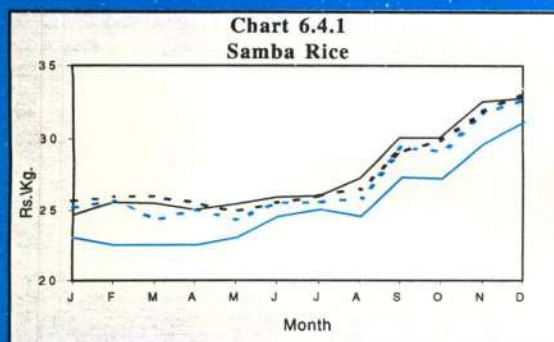
Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1995	1996(a)	1995	1996(a)	Dec. 1995	Dec. 1996(a)
All Items	100.00	950.3	1,145.1	8.8	20.5	16.2	18.1
Commoditywise							
Food	67.80	800.0	1,040.7	5.2	30.1	17.9	27.1
Alcoholic Drinks	2.86	1,095.4	1,176.0	13.0	7.4	13.0	24.3
Textile & Footware	4.02	580.4	626.5	20.2	7.8	27.9	2.4
Paper Products	1.37	960.4	1,063.4	26.1	10.7	55.7	23.5
Chemicals & Chemical Products	5.16	637.0	660.9	15.7	3.8	14.2	6.3
Petroleum Products	6.42	1,314.8	1,371.9	1.5	4.6	8.9	15.4
Non-Metallic Products	1.78	2,120.4	2,238.3	11.9	5.6	8.7	3.8
Metal Products	0.93	706.4	784.4	1.2	11.0	6.7	7.0
Transport Equipment	0.80	846.7	906.6	24.1	7.3	29.2	2.7
Electrical Appliances & Supplies	0.96	753.0	767.7	8.8	2.0	6.6	3.3
Machinery	1.33	583.9	604.3	6.7	3.5	8.8	3.4
Fuel & Light	1.79	2,131.6	2,410.1	22.6	13.1	11.4	17.8
Miscellaneous	4.78	2,481.0	2,729.5	21.0	10.0	12.7	3.1
Sectorwise No. I							
Domestic Group	50.31	890.6	994.6	6.8	11.7	5.2	12.6
Import Group	27.17	773.0	862.8	10.1	11.6	24.3	9.8
Export Group	22.52	1,297.8	1,822.3	11.0	40.4	28.7	31.1
Sectorwise No. II							
Consumer Goods	75.30	871.6	1,093.1	6.4	25.4	16.0	24.0
Intermediate Goods	20.52	1,187.2	1,309.2	15.4	10.3	20.3	4.5
Investment Goods	4.18	1,205.6	1,273.1	10.1	5.6	8.1	3.7

(a) Provisional.

Source: Central Bank of Sri Lanka



**Chart 6.4**  
**Monthly Prices of Selected Commodities - 1996**



— Colombo    - - - - - Kandy  
 - - - - - Matara    — A'pura

age, samba rice prices were lower in Anuradhapura than in Colombo due to the former market being in the vicinity of rice producing areas. Prices of vegetables tended to be higher in Colombo. Vegetable prices were lower in Kandy as many areas which produce both up-country and low-country vegetables are close to Kandy. The prices of onions and potatoes however were lower in Colombo than in other markets. This could be because during off-seasons, these items are imported and the imports first pass through the Colombo market to reach other areas. The average price of dried chillies was lower in Anuradhapura as the cultivation of this item is concentrated in the vicinity of that area. The prices of fish, on the other hand, tend to be higher in Kandy than in Colombo and Matara, as this town is farther away from the coastal areas. The average price of eggs was lower in Colombo due to the higher concentration of egg production in the Western and North Western areas of the country.

Charts 6.4.1 to 6.4.4 indicate the monthly price levels in the four selected markets. They reveal that the seasonal patterns in the four selected markets do not diverge widely. Throughout the year, the price of samba rice was significantly lower in Anuradhapura when compared to the other centres. In the case of most varieties of vegetables, prices were at peak levels in June in all centres considered. During the harvesting seasons, in particular, the price of beans dropped to very low levels in the Kandy market due to the arrival of large stocks. This phenomenon was observed in March and during August to October.

Among developing countries, Sri Lanka is a relatively well integrated country with a net-work of roads which stretch even to the remote hinterlands. Since liberalisation, the number of vehicles in the private sector has increased significantly. Trucks and lorries owned by private sector operators, as well as government owned conveyances, are used to transport produce from the small scale cultivators spread across the country to different regional sales points. Yet, perishability and quality deterioration during transport remains an important factor causing regional price disparities, particularly in the case of vegetables. It has been observed that as much as one third of vegetables are damaged during transportation. Another factor that contributes to high perishability of vegetables is the lack of storage facilities and inadequate financial resources of cultivators which often force them to harvest crops prematurely. On the demand side however, Sri Lanka being a small country, consumption patterns tend to be relatively homogeneous and regional demand patterns do not vary significantly. Indirect taxes on goods and services do not have any impact on price variations as they are uni-



**TABLE 6.6**  
**Average Retail Prices of Selected Food Items in Selected Markets**

Item	Prices (Rs./Kg.)				Difference from Colombo (%)		
	Colombo	Kandy	Matara	Anuradhapura	Kandy	Matara	Anuradhapura
Samba	27.58	26.96	27.45	25.20	-2.2	-0.5	-8.6
Kekulu	23.81	22.13	20.96	22.93	-7.1	-12.0	-3.7
Beans	35.87	27.12	28.42	29.13	-24.4	-20.8	-18.8
Cabbages	26.88	18.86	22.98	23.66	-29.8	-14.5	-12.0
Brinjals	31.19	17.49	17.63	17.93	-43.9	-43.5	-42.5
Pumpkin	18.09	13.64	16.11	15.50	-24.6	-10.9	-14.3
Red Onions	47.08	52.12	49.44	50.73	10.7	5.0	7.8
Big Onions	26.89	29.31	25.84	29.62	9.0	-3.9	10.2
Potatoes	38.53	43.07	41.58	44.13	11.8	7.9	14.5
Dried Chillies	135.64	139.15	136.42	120.65	2.6	0.6	-11.1
Kelawalla	124.27	152.58	148.96	148.04	22.8	19.9	19.1
Hundla	73.24	95.35	76.33	84.58	30.2	4.2	15.5
Eggs (Rs. per egg)	3.06	3.30	3.24	3.37	7.8	5.9	10.1
Coconuts (Rs. per nut)	11.15	9.67	9.35	9.24	-13.3	-16.1	-17.1

Source: CWDOS - Statistics Department  
Central Bank of Sri Lanka

form across the country.

Economic development may bring about a reduction in regional price disparities. For instance, as transport facilities and the road network improves, the cost of transport and loss due to spoilage of goods during transport would decline. Improvements in technology, coupled with development, would also result in improvements in the quality of products, better storage and packaging, which would minimise the spoilage and weight loss during transport. Increased competition among traders in a liberalised economic environment may also improve the efficiency in transporting and handling goods. Similarly, better communication facilities and dissemination of information would also help to narrow the price disparities between regions.

## 6.2 Wages

On average basis, the nominal wages of all categories of employees increased over 1995 levels, except for

government sector teachers, whose wages were increased by 28 per cent in 1995. In the organised private sector overall wage increases were higher than in the previous year, while in the unorganised private sector substantial nominal wage increases were recorded for most activities. However due to the sharp increase in the rate of inflation in 1996, real wages in the organised sector and in most activities in the unorganised sector deteriorated.

Wages for public sector employees remained unchanged in 1996 as a major revision of the wage structure of the entire public sector was expected to be effected in 1997, subsequent to the implementation of the recommendations of the B.C. Perera Salary Review Commission. In the Plantation sector, wages for workers in State plantations were revised upwards as were wages pertaining to the Wages Board for the Tea Growing and Manufacturing Trade which covers workers in private sector plantations. Three more Wages Boards revised wages applicable to trades covered by them in 1996. In

**TABLE 6.7**  
**Wage Rate Index Numbers**  
**(December 1978 = 100)**

Item	Nominal		Real		Percentage Change in 1996	
	1995	1996(a)	1995	1996(a)	Nominal	Real
1. Government Employees						
Central Government Employees	792.5	818.2	115.4	103	3.2	-10.7
Non-Executives	749.4	757.1	109.2	95.3	1.0	-12.7
Minor Employees	828.1	878.7	120.6	110.8	6.1	-8.1
Government School Teachers	760.5	760.5	110.8	95.7	0.0	-13.6
2. Workers in Wages Boards Trades						
All Wages Board Trades	740.3	801.7	107.8	100.7	8.3	-6.6
Workers in Agriculture	830.9	907.9	121.1	113.9	9.3	-5.9
Workers in Industry & Commerce	651.6	682.6	94.8	85.9	4.8	-9.4
Workers in Service	456.7	487.2	66.5	61.3	6.7	-7.8

(a) Provisional

Sources: Department of Labour  
Central Bank of Sri Lanka

the unorganised sector, available data indicated that nominal wage increases for several activities were sharper than those registered for the organised sector. Nevertheless, with inflation more than doubling during 1996, real wages deteriorated for most activities. However, the real wage indices calculated by deflating the nominal wage rate indices by the CCPI should be used with caution as the CCPI has its own weaknesses. In addition, the consumption basket for different categories of employees may be different and using one consumer price index to compute real wages would not be appropriate, though it is used in the absence of other indicators.

### Public Sector

In the public sector, with effect from January 1996, interim allowance of Rs.100 became payable to those categories of public sector employees who had not received any wage increase since August 1994. This allowance was to be increased to Rs. 250 from July. However, as almost all categories of public sector employees had received some sort of wage increase since August 1994, they were not eligible for this allowance. On average in 1996 nominal wages of all government employees, as measured by the Wage Rate Index for Government Employees, increased by only 3.2 per cent as compared to an increase of 7.7 per cent in 1995. This represents a deterioration of real wages by 10.7 per cent during the year. In the previous year, real wages had remained stable. The Nominal Wage Rate Index for non executive officers increased by a marginal 1.0 per cent in 1996 following an increase of 8.2 per cent in 1995. Real Wages for this category, which had increased by 0.5 per cent in 1995, declined by 12.7 per cent in 1996. The Nominal Wage Rate Index for Minor Employees increased by 6.1 per cent during the year following an increase of 7.2 per cent registered last year. Real wages for this category which had deteriorated by 0.4 per cent in 1995, declined by a further 8.1 per cent. Nominal wages for Government School Teachers which had increased by a sharp 27.7 per cent in 1995, remained unchanged during 1996. Consequently, real wages declined by 13.6 per cent following the substantial real wage increase of 18.6 per cent registered last year.

### Private Sector

Wage rates for workers in tea plantations coming under the JEDB and SLSPC which had been fixed at a consolidated level of Rs.72.24 per day from 1993 were increased from May 1996 to keep in line with the minimum wages payable under Wages Boards for the Tea Growing and Manufacturing Trade where the variable Cost of Liv-

ing Allowance is paid. The wage rates applicable to this trade as determined by the Wages Board continued to be paid until August 1996 in State Plantations and thereafter fixed at a level of Rs.83.00 per day. The Wages Boards for the Tea Growing and Manufacturing Trade also fixed wages at a consolidated level of Rs.83.00 from August. As such, the payment of the Cost of Living Allowance was suspended for workers in private sector tea estates, as well. Three other Wages Boards covering the Match Manufacturing, Paddy Hulling and Journalism Trades also revised minimum wages in 1996. These developments followed the revisions of minimum wages in 28 of the 34 active Wages Boards in 1995.

With the above revisions, wages for workers in the organised private sector as measured by the Minimum Wage Rate Index for Workers in All Wages Boards Trades increased on average by 8.3 per cent in nominal terms in 1996, a higher increase compared to the 3.9 per cent increase registered in 1995. Real wages, however, deteriorated by a further 6.6 per cent following a real wage erosion of 3.6 per cent experienced last year. Wages for workers in agriculture rose by 9.3 per cent reflecting the increase in wages of plantation workers. This, however, represents a erosion of real wages of 5.9 per cent. Wages for workers in industry and commerce rose by 4.8 percent during the year. Real wages for this category, which had improved substantially last year, deteriorated by 9.4 per cent in 1996. Nominal wages for workers in services rose by 6.7 per cent in 1996. Real wages for this category accordingly declined by 7.8 per cent.

### Informal Sector

Daily wages in the informal sector are collected through the Country Wide Data Collection System of the Central Bank. This scheme covers activities in paddy cultivation, small holder cultivation of tea, rubber and coconut and small scale construction activities. Data are collected from about 100 data collecting centres spread across the country except in the Northern Province.

According to provisional data on small scale construction, wages of carpenters and masons increased by 14 to 15 per cent while those of their unskilled helpers rose by 13 per cent. Consequently, real wages in construction activities deteriorated slightly. In tea cultivation activities, wages for major activities increased in the range 9 to 16 per cent, while in rubber cultivation increases were in the range 7 to 14 per cent for major activities. Wages of activities in coconut cultivation rose by 8 to 10 per cent. In the paddy sector nominal wage increases for major activities were between 6 and 13 per cent.