

6. PRICES AND WAGES

6.1 Prices

There was a sharp deceleration of inflation during 1997, in spite of increases in some administered prices, mainly due to an improved supply of domestic consumer goods and imported goods, and reduced demand pressure that resulted from a moderation of monetary expansion. The supply of domestic goods improved with the recovery in domestic agriculture. In addition, the availability of imported consumer goods improved after the removal of the licensing requirements on onions, potatoes and chillies in 1996. Further, the granting of temporary duty waivers and reductions for selected consumer items also helped to contain inflation. The favourable impact of the above factors was somewhat offset by the increase in the administered price of wheat flour and the consequent rise in bread prices in August 1997, the upward revision of the tariffs on electricity in September 1997 and the increase in the price of cigarettes in June 1997. The depreciation of the rupee by about 7 per cent against the dollar during the year also exerted upward pressure on the prices of imports.

The rate of increase in the general price level declined in 1997. This was reflected in all major aggregate price indicators. The increase in consumer prices according to the Colombo Consumers' Price Index (CCPI), the official measure of inflation, declined from 15.9 per cent in 1996 to 9.6 per cent in 1997. The Greater Colombo Consumers' Price Index (GCPI), which has a wider coverage than the CCPI, showed a faster decline in the consumer price increases, from 14.7 per cent in 1996 to 7.1 per cent in 1997. The annual average increase in prices at the primary market level, as reflected in the Wholesale Price Index (WPI), was 6.9 per cent in 1997 compared to 20.5 per cent in 1996. The overall general price level in the economy as reflected in the implicit Gross National Product Deflator (GNPD) decreased from 12.2 per cent in 1996 to 8.5 per cent in 1997. Meanwhile, the new consumer price index computed by the Central Bank for the Colombo District, based on consumption data of the first round of the Consumer Finances and Socio Economic Survey 1996/97, showed a rate of inflation of 7.3 per cent for 1997.

The price behaviour during 1997 followed the normal seasonal pattern. Price increases during the first quarter of the year were slow, with the CCPI registering declines during February and March, which correspond to the major paddy harvesting (Maha) season. Price decelerations were also seen during the period August to October with the minor harvesting (Yala) season. However, as a result of

unusually heavy and prolonged rains, there was a sharp upsurge in prices in the last two months of 1997. As a result, the point to point increase in the CCPI (measured by comparing the index number of a particular month with that of the corresponding month of the previous year), which had moved down to a low of 6.5 per cent in October from a high level of 16.7 per cent in January, underwent a reversal after November, rising to 10.7 per cent by the end of the year. The heavy rains during November and December caused severe damage to vegetable crops and affected the processing of rice for the market.

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	8.8	8.3
1996	15.9	14.7	20.5	12.2
1997	9.6	7.1	6.9(a)	8.5(a)

(a) Provisional

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

Colombo Consumers' Price Index

The slower increase of the Colombo Consumers' Price Index in 1997 reflected slower growth in prices of the food, fuel and light, and miscellaneous categories.

Food prices contributed to 81 per cent of the overall increase in the Index as compared with 83 per cent in 1996. The overall increase in food prices was 10.9 per cent during the year, much slower than the 19.2 per cent registered in 1996. The price of wheat flour, which underwent several revisions in 1996, was raised further from Rs.16.95 to Rs.18.95 per kg. in August. As a consequence, the price of a loaf of bread (450 gms.) rose by about one rupee or 13 per cent. However, the price of rice, the main staple, was

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 1997 (%)
		1996	1997	1996	1997	Dec. 1996	Dec. 1997	
All Items	100.0	1,906.7	2,089.1	15.9	9.6	16.8	10.7	100
Commoditywise								
Food	61.9	2,107.6	2,336.9	19.2	10.9	20.7	13.3	81
Clothing	9.4	821.8	844.0	2.2	2.7	3.4	1.4	1
Fuel & Light	4.3	3,591.6	3,752.8	8.1	4.5	7.3	4.7	4
Rent	5.7	109.8	109.8	-	-	-	-	-
Miscellaneous	18.7	1,994.7	2,157.8	10.8	8.2	9.3	4.7	14

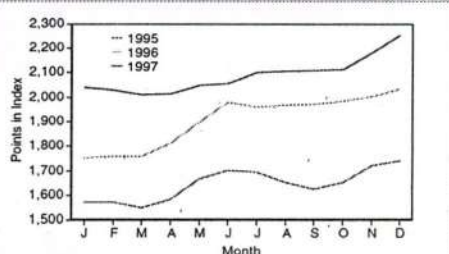
Source: Department of Census and Statistics

contained to an increase of 11 -12 per cent, from over 20 per cent in the previous year. Paddy production during the year was higher by 9 per cent. Overall, as in 1996, cereal products contributed to around 30 per cent of the increase in the CCPI in 1997. The price of coconuts, which had risen by over 50 per cent during 1996, increased by around 13 per cent in 1997. As a result of duty concessions granted on the import of edible oils and slack world prices, the price of coconut oil decreased slightly during the year. The price of sugar also declined by about 5 per cent as a lower import duty was applicable until August 1997. Price declines were registered for major subsidiary food crops such as chillies, onions and potatoes mainly due to the abundant availability of imports in the market in the absence of licensing requirements. However, the price of vegetables rose sharply towards the end of the year due to crop damage caused by rains. In fact, vegetables alone accounted for over 30 per cent of the overall increase in the CCPI in 1997.

a substantial liberalisation of textile imports without import duties was announced in the November Budget, the full impact was not felt during the year. Prices in the fuel and light category rose by 4.5 per cent in 1997, a much slower increase than the 8.1 per cent increase experienced during 1996. Within this category, the price revision of kerosene in September, 1996 had its full impact in 1997. The tariffs on electricity were also raised upward in September, 1997. However, the increase in the price of firewood was moderate. The fuel and light group contributed about 4 per cent to the overall increase in the Index.

In the miscellaneous category, prices rose by 8.2 per cent, somewhat lower than the 10.8 per cent increase registered in 1996. Increased prices of cigarettes and toilet requisites, as well as higher cost of laundry and entertainment, were the major contributory factors. Overall, the contribution of miscellaneous items to the increase in the CCPI was about 14 per cent.

Chart 6.1
Colombo Consumers' Price Index
(1952 = 100)



In the clothing category, prices rose by 2.7 per cent in 1997 compared to a 2.2 per cent increase in 1996. Although

Greater Colombo Consumers' Price Index

In 1997, the Greater Colombo Consumers' Price Index registered an increase of 7.1 per cent, which was less than half of the increase of 14.7 per cent registered last year. As observed in the past, the GCPI continued to reflect a lower increase than the CCPI. In fact, the disparity between the two indices which had narrowed in 1996, widened in 1997, due to the differences in the weighting structure. In particular, the sharp rise in the price of vegetables made a bigger impact on the CCPI than the GCPI by virtue of the higher weight given to vegetables in the former Index.

Prices in the food and drink category of the GCPI registered an increase of 7.5 per cent, substantially lower than the increase of 17.9 per cent registered last year. Price

Box 4

A Measure of Underlying Inflation

In Sri Lanka inflation is generally measured by the Colombo Consumers' Price Index (CCPI) which is the official price index computed by the Department of Census and Statistics (DCS). The Greater Colombo Price Index (GCPI) computed by the DCS is also used to measure inflation. The other major indicators of inflation are the GDP deflator and Wholesale Price Index computed by the Central Bank of Sri Lanka.

Maintaining prices at a low and stable level is the primary objective of monetary policy. Ideally, all prices should be fully determined in the market, and stability in such unregulated prices would be a reflection of overall macroeconomic stability and the effectiveness of monetary policy in containing inflation. There are permanent and transitory components of price changes. Therefore, for effective policy formulation, it is essential to decompose the two components in the measured inflation indicator. In this context, it is necessary to exclude the effects of temporary shocks from the price indices so as to derive the 'underlying inflation' or 'core inflation' as against the 'headline' inflation as reflected in the original price indices. In measuring underlying inflation, countries use various methods to eliminate supply side shocks. In the United States for example, sub-components of the consumer price index such as food and energy prices are excluded. Food prices are excluded as they are volatile and erratic while energy prices are excluded on the grounds that they are determined by the Government and as such, are largely unrelated to demand pressures in the economy. In the United Kingdom, mortgage interest costs are excluded from the headline rate in order to obtain the underlying rate.

In Sri Lanka prices of several consumer goods, i.e., wheat flour, bread, kerosene, electricity, transport fares,

cigarettes and liquor, are administratively determined by the Government. Among these items with administered prices, wheat flour, bread, kerosene and tobacco have high weights (with a combined current weight of about 16 per cent) in the CCPI and thus, price changes in these items have considerable influence on inflation. The prices of these items were revised on several occasions during the last two years (Table 1).

TABLE 1
Administered Price Revisions, 1996-1997

Item	Unit	From		To		Date	Rs.
Wheat Flour	1 Kg	11.95	12.45			April 1996	
Bread	450 gms (loaf)	5.00	5.25			April 1996	
Bus fare		Approx. 15%				July 1996	
Wheat Flour	1 Kg	12.45	13.95			July 1996	
Bread	450 gms. (loaf)	5.25	5.75			July 1996	
Cigarettes	25 cts - 50 cts increase					July 1996	
Cocunut Arrack		175.00	190.00			July 1996	
Wheat Flour	1 Kg	13.95	16.95			August 1996	
Bread	450 gms. (loaf)	5.75	6.75			August 1996	
Kerosene Oil	1 Lt.	9.50	10.40			September 1996	
Cigarettes	25 cts. increase					June 1997	
Wheat Flour	1 Kg	16.95	18.95			August 1997	
Bread		6.75	7.75			August 1997	
Electricity						September 1997	

Source: Central Bank of Sri Lanka

In arriving at an estimate of underlying inflation, these items should be excluded from the basket of the CCPI and the price change in the residual basket can be used as a measure for underlying inflation. In early 1996, the effect of the sharp reduction in the administered prices of bread, wheat flour and kerosene in the latter part of 1994 continued to be felt in the inflation rate measured by the unadjusted CCPI and therefore, the unadjusted rate fell below the underlying rate (Table 2 and Chart 1). Similarly, adjusted for upward price revisions effected since April 1996, the underlying inflation rate lies below the headline rate from July 1996 onwards.

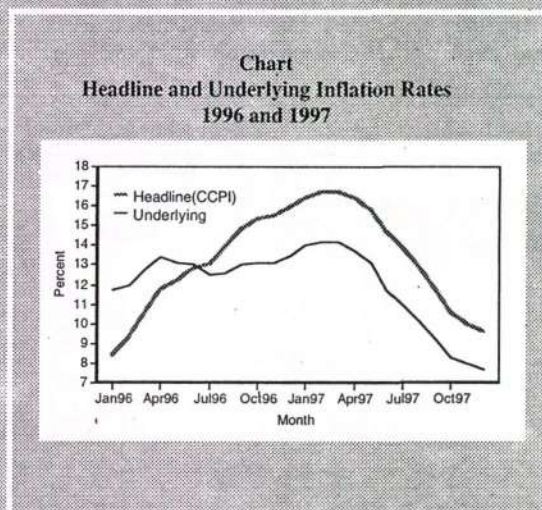
However, the above is not an exact measure of core inflation. It still inherits the various weaknesses of the CCPI and further refinements need to be made to obtain a more appropriate indicator of core inflation in Sri Lanka.

1. The most common method used is adjustment by exclusion or replacement which involves removing or replacing sub-components of the aggregate price index, the behaviour of which is judged to differ from the trend in underlying inflation. Other methods, which are referred to as trimming methods, involve removing price changes beyond a specific threshold on the premise that extreme price movements reflect primarily supply shocks. Using the weighted median of price changes as the underlying rate is another alternative measure of underlying inflation.

Box 4 (contd.)

TABLE 2
Headline and Underlying Inflation Rates
Jan 1996-Dec 1997

		Headline Inflation Rate(CCPI)	Underlying Inflation Rate
1996	Jan	8.4	11.7
	Feb	9.3	12.0
	Mar	10.6	12.8
	Apr	11.7	13.4
	May	12.2	13.1
	Jun	12.8	13.0
	Jul	13.0	12.5
	Aug	13.9	12.6
	Sep	14.8	13.0
	Oct	15.3	13.1
	Nov	15.5	13.1
	Dec	15.9	13.5
1997	Jan	16.4	14.0
	Feb	16.7	14.2
	Mar	16.7	14.2
	Apr	16.4	13.7
	May	15.8	13.1
	Jun	14.7	11.7
	Jul	13.9	11.0
	Aug	12.9	10.1
	Sep	11.7	9.2
	Oct	10.6	8.3
	Nov	10.0	8.0
	Dec	9.6	7.7



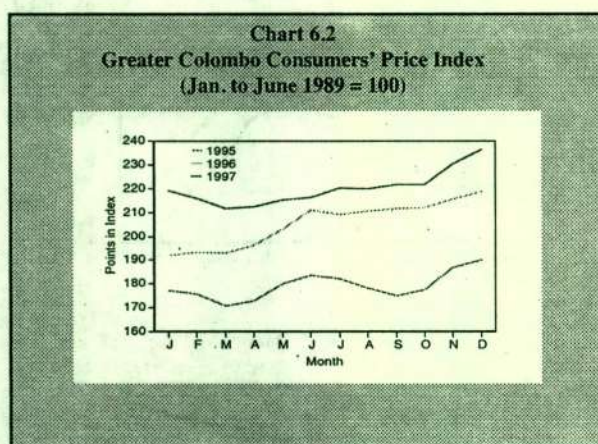
Source: Department of Census and Statistics
Central Bank of Sri Lanka

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	
		1996	1997	1996	1997	Dec. 1996	Dec. 1997
All Items	100	205.5	220.1	14.7	7.1	15.2	7.9
Commoditywise							
Food & Drinks	69.3	216.1	232.2	17.9	7.5	18.5	8.9
Liquor, Tobacco, Betel & Arecanut	3.8	250.7	273.4	9.6	9.0	11.9	4.2
Housing	8.9	109.8	109.9	0.1	0.1	-	0.2
Fuel & Light	5.4	215.9	227.1	7.1	5.2	5.8	9.2
Clothing & Footwear	2.8	218.3	227.1	3.7	4.0	3.7	2.7
Personal Care & Health Services, Household Goods & Services	4.9	202.8	227.0	11.0	11.9	8.6	10.9
Transport & Communication	2.8	181.8	195.0	8.4	7.3	16.0	0.4
Miscellaneous	2.1	173.8	179.2	6.7	3.1	6.2	1.5

Source: Department of Census and Statistics

increases in the liquor, tobacco, betel and arecanut (9.0 per cent), fuel and light (5.2 per cent), transport and communication (7.3 per cent) and miscellaneous (3.1 per cent) categories also slowed down. Slightly higher increases were reflected in the categories of clothing and footwear, and personal care and health services, household goods and services. The increase in the clothing and footwear category was 4.0 per cent in 1997 as compared with 3.7 per cent in 1996 while that in the personal care and health services, household goods and services category was 11.9 per cent in 1997 as compared with 11.0 per cent in 1996.



Consumer Price Index for Colombo District

A consumer price index for the Colombo District was computed by the Central Bank, based on results of the first round of the Consumer Finances and Socio Economic Survey (CFS) 1996/97. The consumer basket for the index was chosen using the consumption pattern of the lowest 40 per

cent of households (when ranked by income) covered by the survey in the Colombo District.

All non-durable consumption items (totalling 325) indicated by the survey were taken into account in computing the weights for the index. These items were grouped into five sub categories, namely food, clothing, fuel and light, rent and miscellaneous items, for each of which separate sub indices were computed. Food is the largest category, accounting for 60 per cent of the index, but this is much lower than the food component in the CCPI which currently stands at 72 per cent.

The base value of the index was arrived at using average prices during the period October to December, 1996 and therefore, the base of the index is October - December 1996 (= 100). Prices are collected from five market centres - Pettah, Homagama, Hanwell, Avissawella and Moratuwa, once a week for most food items and once a month for clothing and grocery items. Price data for administratively regulated items such as wheat flour, bread, electricity, cigarettes, liquor, gas etc. are collected whenever prices are changed.

The index was computed for the period January 1996 - December 1997. This shows an inflation of 7.3 per cent in 1997 and it is closer to the inflation rate of 7.1 per cent reflected by the GCPI but lower than the 9.6 per cent inflation reflected by the CCPI. The lower rate reflects the differences in the weight structure due to changing consumption patterns. Administered price items, vegetables and fish have lower weights in the new index.

However the results obtained through the new index should be interpreted with caution, mainly because of the

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

Item	Unit	Prices in Rupees			Percentage Change	
		1995	1996	1997(a)	1996	1997(a)
Rice (ordinary par boiled)	Kg.	16.11	20.80	22.68	29.1	9.0
Bread, (450 gm.)	Loaf	3.81	6.05	7.65	58.8	26.5
Egg, (ordinary)	Each	3.28	3.40	4.47	3.7	31.5
Coconut, (medium size)	Nut	5.45	8.82	9.83	61.8	11.5
Vegetables						
Bitter Gourd	Kg.	26.70	26.16	32.47	5.5	15.3
Cabbages	"	24.87	23.68	27.79	-4.8	17.4
Carrots	"	33.60	33.59	39.13	-0.1	16.5
Green Beans	"	30.01	29.81	35.43	-0.7	18.9
Leeks	"	33.44	32.10	34.39	-4.0	7.1
Potatoes	"	47.57	41.76	34.15	-12.2	-18.2
Red Onions (medium)	"	40.34	49.81	49.54	23.5	-0.5
Dried Chillies (Gr. 1)	"	122.28	139.90	99.85	14.4	-28.6
Sea Fish						
Kelawalla	Kg.	128.69	135.03	153.79	4.9	13.9
Mullet	"	92.87	101.77	117.76	9.6	15.7
Hurulla	"	72.63	84.91	91.27	16.9	7.5
Salaya	"	53.39	60.61	68.92	13.5	13.7

(a) Provisional

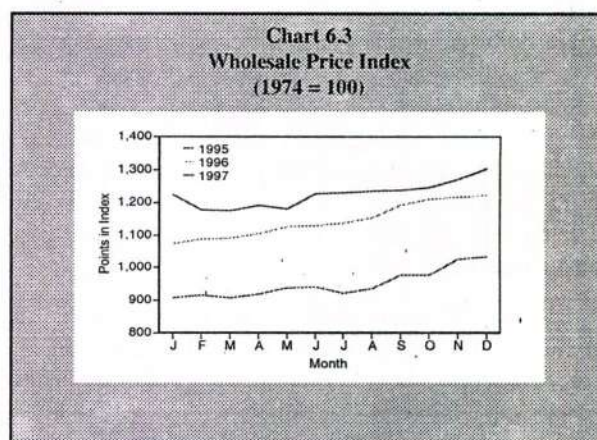
Source : Department of Census and Statistics

fact that the consumer basket was computed using only the first round results of the CFS survey covering the period October - December 1996. Therefore, the size of the household sample used is also small. The seasonal pattern of consumer expenditure in the reference period may have affected the newly computed consumer basket - e.g. rising consumption during the Christmas season and a sharp rise in vegetable prices due to the drought in 1996. Consumer expenditure data of the other 3 rounds of the survey are being processed and when these data are finalised the new indices will be expanded and improved further.

Wholesale Price Index

In 1997, the annual increase in the Wholesale Price Index (WPI) decelerated to 6.9 percent. This was a mere one third of the increase of 20.5 per cent registered last year. The lower rate of increase of the price of tea and the drop in the price of rubber and coconut, all of which have significant weights in the Index, were the major reasons for the deceleration of the WPI. The prices of the three elevational categories of tea which registered increases ranging from 36 to 48 per cent in 1996, rose by 13 to 20 per cent during 1997. The price of coconuts, which rose by 80 per cent last year, registered a marginal decrease of 0.6 per cent while the price of coconut oil fell by 0.8 per cent. Tea and coconut had accounted for over 50 per cent of the

total increase in the WPI last year. In addition to the above, the substantial decline in the price of rubber, which was the major cause for the decline in the miscellaneous category, also exerted downward pressure on the overall WPI. Price declines registered in the machinery and paper products categories and the deceleration in the textile and footwear, metal products, transport equipment and fuel and light categories also contributed to the overall picture.



Prices in the food category increased by only 8.8 per cent in 1997, considerably lower than the increase of 30.1 per cent registered last year. Apart from the deceleration in

TABLE 6.5
Wholesale Price Index (1974 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1996(a)	1997(a)	1996	1997(a)	Dec 1996	Dec 1997 (a)
All Items	100.0	1,145.1	1,224.3	20.5	6.9	18.1	6.6
Commoditywise							
Food	67.8	1,040.7	1,132.2	30.1	8.8	27.1	8.1
Alcoholic Drinks	2.9	1,176.0	1,361.3	7.4	15.8	24.3	-
Textiles & Footwear	4.0	626.5	633.8	8.0	1.2	2.4	-
Paper Products	1.4	1,063.4	902.9	10.7	-15.1	-23.5	-0.7
Chemicals & Chemical Products	5.2	660.9	717.3	3.7	8.5	6.3	8.4
Petroleum Products	6.4	1,374.9	1,528.2	4.6	11.2	15.4	-
Non-Metallic Products	1.8	2,238.3	2,387.6	5.6	6.7	3.8	24.1
Metal Products	0.9	784.4	806.1	11.1	2.8	7.0	2.1
Transport Equipment	0.8	908.6	937.3	7.3	3.2	2.7	1.2
Electrical Appliances & Supplies	1.0	767.7	800.6	2.0	4.3	3.3	4.3
Machinery	1.3	604.3	596.1	3.5	-1.4	-3.4	1.3
Fuel & Light	1.8	2,410.1	2,694.8	13.1	11.8	17.8	17.1
Miscellaneous	4.8	2,729.5	2,582.5	10.0	-5.4	-3.1	-2.7
Sectorwise No. I							
Domestic Group	50.3	994.5	1,059.1	11.7	6.5	12.6	8.0
Import Group	27.2	862.8	933.5	11.6	8.2	9.4	3.7
Export Group	22.5	1,822.4	1,944.5	40.4	6.7	31.1	6.5
Sectorwise No. II							
Consumer Goods	75.3	1,093.0	1,190.4	25.4	8.9	24.0	8.2
Intermediate Goods	20.5	1,309.2	1,324.6	10.3	1.2	4.5	-1.0
Investment Goods	4.2	1,273.1	1,342.7	5.6	5.5	3.7	18.7

(a) Provisional

Source: Central Bank of Sri Lanka

the prices of tea and the drop in the price of coconuts, the sharp deceleration in the growth of the price of open market paddy from over 30 per cent in 1996 to around 8 per cent in 1997, the decline in the import price of wheat grain and the drop in prices of subsidiary food crops such as chillies were also responsible for the lower rate of increase in the prices in the food category.

Price increases in the textile and footwear, metal products, transport equipment and fuel and light categories slowed down during the year, registering 1.2 per cent, 2.8 per cent, 3.2 per cent and 11.8 per cent, respectively, as compared to increases of 8.0 per cent, 11.1 per cent, 7.3 per cent and 13.1 per cent last year. Prices in the paper products, machinery and miscellaneous categories registered declines of 15.1 per cent, 1.4 per cent and 5.4 per cent, respectively, as compared with increases of 10.7 per cent, 3.5 per cent and 10.0 per cent last year.

Prices of alcoholic drinks, chemicals and chemical products, petroleum products and electrical appliances, however, accelerated twice as much in 1997 as in the previous year. Increases in fertiliser prices raised the index of the chemical group. The full impact of the increase of petroleum prices in September 1996 was felt in the current year, while the increase in cement prices contributed to the rise in the non-metallic products index.

Sectorally, the sub indices for the domestic, import and export groups showed lower increases. The increases in the domestic and import group indices dropped to 6.5 per cent and 8.2 per cent, respectively, from 11.7 per cent and 11.6 per cent, last year. The rise in the sub index for exports dropped significantly to 6.7 per cent from 40.4 per cent last year.

In the end-use classification, the rate of increase in the sub indices for the consumer and intermediate categories

decreased substantially to 8.9 per cent and 1.2 per cent from the 25.4 per cent and 10.3 per cent registered last year. However, the price increase in the investment category at 5.5 per cent remained close to the previous year's level of 5.6 per cent.

Regional Price Variations

Table 6.6 shows the average retail prices of major food items in the Colombo, Kandy, Anuradhapura and Matara markets, and their variations in comparison with the Colombo market during 1997. A similar pattern of variation as in 1996 was observed in 1997 too, with relatively lower variability for items with lower perishability such as rice, onions, potatoes, dried chillies, eggs and coconuts and high variability for vegetables and fish. Prices of vegetables were lower in the regional centres when compared with Colombo due to their proximity to producing areas, while the prices of fish, onions and eggs were generally lower in Colombo. Again, in conformity with major regional production patterns, prices of short grain (samba) rice and chillies were lowest in the Anuradhapura market while the price of kekulu rice was lowest in the Matara market. Prices of upcountry vegetables were lowest in the Kandy market while prices of fish were highest in that market.

Chart 6.4 depicts the seasonal behaviour of prices in selected markets. The seasonal pattern of price behaviour for rice was more clearly observed in 1997 than in 1996 as a consequence of improved domestic production. In the Anuradhapura market, which is in close proximity to many rice producing areas, the seasonal pattern appeared to be relatively sharper with prices dropping in the February-April (Maha harvest) period and again in August-September (Yala harvest) period. The seasonal price behaviour for beans was

TABLE 6.6
Average Retail Prices of Selected Food Items in Selected Markets in 1997 (a)

Item	Prices (Rs./Kg.)				Difference from Colombo(%)		
	Colombo	Kandy	Matara	Anuradhapura	Kandy	Matara	Anuradhapura
Samba Rice	29.75	30.27	28.84	27.32	1.7	-3.1	-8.2
Kekulu Rice	25.69	25.17	22.33	24.51	-2.0	-13.1	-4.6
Beans	42.01	32.98	34.28	33.54	-21.5	-18.4	-20.2
Cabbages	29.93	21.14	26.21	23.66	-29.4	-12.4	-20.9
Brinjals	32.82	20.56	19.63	20.55	-37.4	-40.2	-37.4
Pumpkins	21.06	17.00	15.85	15.73	-19.3	-24.7	-25.3
Red Onions	46.64	51.71	46.91	47.50	10.9	0.6	1.8
Big Onions	24.75	25.83	25.34	27.16	4.4	2.4	9.7
Potatoes	35.77	34.14	28.95	37.00	-4.6	-19.1	3.4
Dried Chillies	97.97	98.09	89.85	85.17	0.1	-8.2	-13.1
Ketawalla	130.92	167.29	163.71	159.26	27.8	25.0	21.6
Hurulla	69.69	88.32	85.31	91.70	26.7	22.4	31.6
Eggs (Rs. per egg)	4.08	4.29	4.34	4.25	5.1	6.4	4.2
Coconut (Rs. per nut)	11.46	10.18	11.51	10.10	-11.2	0.4	-11.9

(a) Provisional

Source: Central Bank of Sri Lanka

Chart 6.4
Monthly Prices of Selected Commodities

Chart 6.4.1
Samba Rice

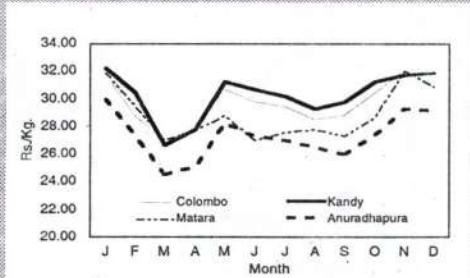


Chart 6.4.2
Beans

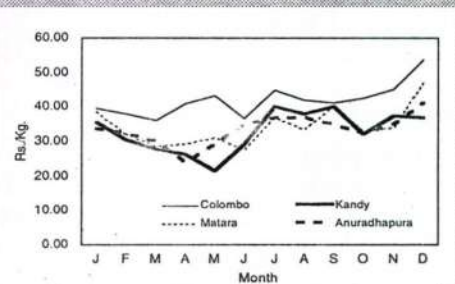


Chart 6.4.3
Red Onions

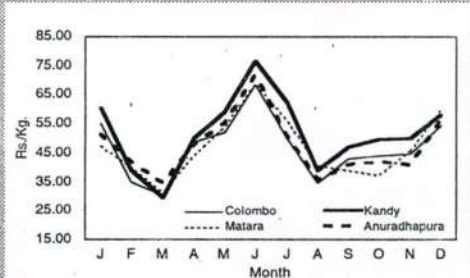
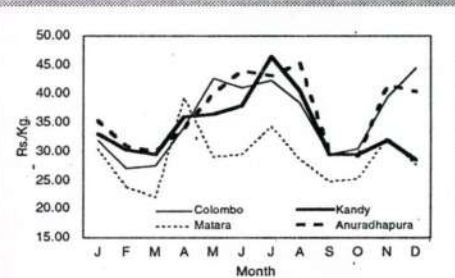


Chart 6.4.4
Potatoes



however less marked in 1997 than in 1996. Prices for this commodity remained highest in Colombo throughout the year, while prices in Kandy fell to lower levels in May. The price of red onions displayed a clear seasonal pattern in all markets as in the previous year, with prices being low during February-March and peak prices being recorded in June.

Variations in the price of red onions between Colombo and both the Anuradhapura and Matara markets narrowed when compared to last year. Price differences with respect to eggs also narrowed notably between the Colombo and Anuradhapura markets. Prices of coconuts in the three regional markets also moved closer to the Colombo market with prices in Matara marginally exceeding Colombo prices. Improved market information on prices of supplies evidently helped to even out differences.

6.2 Wages

In 1997, the Government took the first step in a major overhaul of public sector salaries by accepting the recommendations of the Salaries Review Committee appointed in 1994 with Mr. B.C.Perera as Chairman. This was the first comprehensive review of public sector emoluments in more than 20 years. As a result, all categories of public sector employees (except school teachers who received substantial wage increases in 1995), received significant nominal wage increases (with promises of further forthcoming adjustments). The real wages for school teachers improved moderately when compared to the levels of 1996. In the organised private sector, minimum wages applicable to several wages boards were revised upwards. However, on average, real wages in the organised private sector indicated a deterioration. With respect to the unorganised sector,

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

	Nominal		Real		Percentage Change in 1997	
	1996	1997(a)	1996	1997(a)	Nominal	Real
1 Government Employees						
Central Government Employees	818.2	906.5	103.0	104.0	10.8	1.0
Non - Executives	757.1	842.9	95.3	96.7	11.3	1.5
Minor Employees	878.7	966.7	110.6	110.8	10.0	0.2
Government School Teachers	760.5	778.5	95.7	89.3	2.4	-6.7
2. Workers in Wages Boards Trades						
All Wages Boards Trades	801.7	849.1	100.7	97.3	5.9	-3.4
Workers in Agriculture	907.9	971.6	113.9	111.4	7.0	-2.2
Workers in Industry & Commerce	682.8	710.8	85.9	81.4	4.1	-5.2
Workers in Services	487.2	487.2	61.3	55.9	0.0	-8.8

(a) Provisional

Sources: Department of Labour
Central Bank of Sri Lanka

provisional data reveal that nominal wages increased significantly for most activities, such as building construction, paddy, tea and coconut cultivation, leading to an improvement in real wages.

Public Sector

A major restructuring of public sector salary scales was made with the implementation of the Salary Review Committee proposals. The new salary scales entailed a unification of basic wages and allowances. The revision was to be implemented in two stages; 40 per cent of the increase, subject to a minimum of Rs. 325 per month, was granted from 1 January 1997 and the rest from 1 January 1998. Subsequently, the second phase of salary increases at the higher end of the salary structure was deferred until July, 1998. The Committee's recommendations in rationalising public sector salaries, which had been seriously disturbed by ad hoc revisions, were aimed at re-establishing the coherence. These recommendations were also implemented from January 1997.

As a result, the Wage Rate Index for Government Employees increased by 10.8 per cent, significantly higher than the increase of 3.2 per cent in 1996. Given the inflation rate of 9.6 per cent for 1997, this represents an improvement in real wages of at least 1 per cent. This is in sharp contrast to the previous year, when real wages fell by 10.7 per cent. The Nominal Wage Index for Non- Executive Officers increased by 11.3 per cent during the year compared to a 1.0 per cent increase last year. Accordingly, real wages for these employees improved by 1.5 per cent. The Nominal Wage Index for Minor Employees increased by 10.0 per cent, following an increase of 6.1 per cent in 1996. Accordingly, real wages for minor employees increased marginally. Government school teachers, whose salaries had

been stagnant after a substantial salary increase in January 1995, received a modest nominal wage increase of 2.4 per cent in 1997. The correction of certain anomalies in the salary scales of government school teachers was under consideration during the year.

Private Sector

Wages in the organised private sector are monitored through the Minimum Wage Rate Indices in Wages Boards trades. In 1997, on average, nominal wages for all workers in Wages Boards increased by 5.9 per cent following an increase of 8.3 per cent last year. This indicates a further deterioration of real wages, following last year. Agricultural wages rose by 7.0 per cent in 1997, compared with 9.3 per cent in 1996. Within this category, the minimum daily wage for workers in tea plantations, which was fixed at Rs.83 in August, 1996 remained unchanged. Wages for workers in rubber plantations, however, moved up during the year as a result of the variable cost of living allowance payable to these workers. In October 1997, daily wages for this category had reached Rs.83.22. From November onwards, the daily wages of rubber workers were fixed at Rs.83 and ceased to move in tandem with the cost of living index.

Wages of workers in industry and commerce, as measured by the relevant wage index, rose by 4.1 per cent in 1997, which is comparable with the 4.8 per cent increase recorded in 1996. Nominal wages of workers in services, which had increased by 6.7 per cent last year, remained unchanged during 1997. Minimum wages in the sub sectors of batik, textile, printing, security services, tea export, coconut and glassware manufacturing were revised upwards during 1997.

Informal Sector

According to provisional data, daily wages of carpenters, masons and unskilled helpers in building construction activities improved by around 11 per cent during the year, reflecting a modest improvement in real terms. In paddy cultivation, nominal wages for major activities improved by 9 to 18 per cent and consequently real wages improved for most activities. In tea cultivation, nominal wages for preparation of land increased by about 14 per cent while wages for tea plucking increased by 11 per cent. It is significant that this was achieved in an environment where minimum wages fixed by the Wages Boards for tea plantation workers remained unchanged and is a reflection of the buoyancy of tea prices. In coconut cultivation, wage increases for major activities ranged from 13 to 19 per cent. In rubber cultivation, however, daily wages for rubber tappers improved by only 5 per cent reflecting deteriorating market prices. In some cases, payment to rubber tappers in the unorganised sector is tied to the value of latex tapped.

As mentioned elsewhere, given the country's high trade dependence (70 per cent of GDP) and need to maintain export competitiveness, there is a growing need to link wage increases to productivity gains. The widespread practice of linking wages to inflation indicators introduces an

inflationary bias, which could affect competitiveness, compelling resort to exchange and monetary policies where industrial policy should raise productivity. The Government is working on a charter for labour which is expected to lay down guidelines on wage norms and labour mobility.

Among the matters that require urgent solutions are -

- (a) the need to promote flexibility in employment, because labour market rigidities discourage new employment in a background of high unemployment;
- (b) linking wage increases to productivity gains and flexible wage systems linked to incentives;
- (c) moderation of labour laws to give equal protection to employers and employees;
- (d) promotion of an active competition policy.

It is increasingly recognised that labour market reforms to promote competitive conditions is vital for the success of economic liberalisation and promotion of new employment. Pending a full scale review of the efficiency of labour markets, promotion of liberal sub contracting and outsourcing may prove helpful in emancipation of labour markets.