

## 6. PRICES AND WAGES

### 6.1 Prices

Inflation continued to decline in 1998 owing to a slowing down of growth of money supply, decline in imported inflation and increased availability of imported consumer goods. The slowing down of the rate of monetary expansion, together with higher positive real interest rates, reduced the demand pressure on prices. Meanwhile, a sharp reduction in import prices of many essential commodities such as wheat, crude oil, fertiliser and sugar kept the domestic prices of these items from rising in spite of a larger depreciation of the rupee in 1998. Price increases subsided, particularly during the second half of the year, and the consumer price inflation remained below 6 per cent from August 1998. Food prices continued to remain high, despite a slowing down of the rate of increase in prices towards the latter half of the year. While the aggregate consumer prices increased by 7-9.5 per cent, average food prices increased by 8-10 per cent and contributed to about 80 per cent of the increase in consumer prices in 1998. The rate of increase in food prices had decelerated to around 2-4 per cent by the end of the year, due to improved domestic supplies including the successful paddy harvest both in the Maha and the Yala seasons, as well as the increased availability of imported food items. The tariffs on electricity were revised upwards in September 1997 and the direct and indirect impact of this increase was felt in 1998. Price increases of clothing, footwear, telecommunication and health services have declined considerably due to improved performance of these sectors. The introduction of the Goods and Services Tax (GST) raised consumer prices by 2-3 per cent although about 80 per cent of the items in the Colombo Consumers' Price Index basket have been exempted from GST.

All available consumer price indices reflected an easing of inflation in 1998. The Colombo District Consumer Price Index (CDCPI) computed by the Central Bank of Sri Lanka indicated an annual average increase of 7.3 per cent in 1998, marginally down from 7.4 per cent in 1997. The Colombo Consumers' Price Index (CCPI), the official measure of the cost of living computed by the Department of Census and Statistics, recorded an annual average increase of 9.4 per cent which was also slightly lower than the 9.6 per cent increase recorded by this index in 1997. The Greater Colombo Consumers' Price Index (GCPI), which is an alternative consumer price index also computed by the Department of Census and Statistics, indicated an increase of 6.9 per cent in 1998, again slightly below the 7.1 per cent increase registered by the same index in 1997. Meanwhile, at the primary market level, the Wholesale Price Index (WPI) increased by 6.1 per cent in 1998 as compared with an increase of 6.9 per cent in 1997.

The normal seasonal pattern of price behaviour was observed in 1998 with the price level declining according to all consumer price indices during the February- March period, which corresponds to the Maha harvesting period, and the July - September period, which corresponds to the Yala harvesting period. It is notable that in the first half of the year, all indices pointed to a slight acceleration of inflation when compared with the first half of 1997. As at June 1998, the point to point increase of the CCPI (June 1998 over June 1997) was 14.1 per cent, while the corresponding increases registered by the CDCPI and GCPI were 9.5 per cent and 10.1 per cent, respectively. However, the inflationary situation turned more favourable in the second half of the year, with the overall rate of inflation at end 1998 being in fact slightly below that of 1997. As at December, the point to point increase of the CCPI (December 1998 over December 1997) dropped to 3.7 per cent while the corresponding figures for the CDCPI and GCPI declined to 4.0 per cent and 3.5 per cent, respectively. On the demand front, the slowing down of the growth of real income under depressed world market conditions, containment of the growth of money supply to around 13 per cent, compared with 14.9 per cent in 1997, and higher positive real interest rates, contributed to an easing of demand pressure on prices.

TABLE 6.1  
Annual Average Price Changes (%)

	CCPI	GCPI	CDCPI	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	8.4
1996	15.9	14.7	-	20.5	12.2
1997	9.6	7.1	7.4	6.9	8.7
1998	9.4	6.9	7.3	6.1(a)	8.4(a)

(a) Provisional

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

Sri Lanka is yet to achieve a sustainable reduction of inflation. Although the average consumer price inflation has declined, according to the CCPI, to 10.2 per cent during the last five years from 13.5 per cent during the five years 1989-93, a steady reduction of the inflation rate to below 5 per cent would be required for the country to disentangle itself from the inbuilt inflationary bias. Sri Lanka's inflation rate has been higher than the average inflation rate of her trading partners and competitors. This has forced the exchange rate to depreciate at a rate of about 5-6 per cent per year for Sri Lanka to remain competitive in the world commodity markets. As mentioned in the 1997 Annual Report, the exchange rate depreciation has a feedback effect on inflation as Sri Lanka is a highly trade dependent economy where exports and imports together account for about 70 per cent of GDP. The internal wage setting mechanism, which links many wages directly or indirectly to inflation rather than to labour productivity, has been another channel in this inflation-wage-exchange rate nexus. These, together with continuing high budget deficits, have made it a challenging task to eliminate high inflationary expectations among the public. Hence, measures have to be in place for a sustainable reduction in inflation by containing the fiscal deficit at below 5 per cent and introducing a productivity based wage setting mechanism. These have to be supplemented with other measures to eliminate structural weaknesses in the labour market - measures which would make the labour market more flexible, while providing equal protection to both workers and employers in a competitive environment.

### Colombo District Consumer Price Index

In 1998, the Central Bank finalised the computation of an alternative price index, the Colombo District Consumer Price Index. This index is based on 12 months data of the Consumer Finances and Socio-Economic Survey 1996/97. The commodity basket for the index was chosen using the

consumption pattern of the lowest 40 per cent of households (when ranked by income) in the Colombo District covered by the survey. All non-durable items were taken into account in computing the weights of the index. These items were grouped into 9 sub categories for which separate sub-indices are computed. These categories are food; clothing; fuel and light; rent; liquor, tobacco, betel and arecanut; personal care and health; transport; education and recreation; and miscellaneous items. In terms of the CDCPI, the rate of increase in prices decelerated in all categories other than food, fuel and light and miscellaneous items.

Food prices increased by 8.9 per cent during the year and contributed 71.5 per cent of the overall increase in the CDCPI in 1998. In 1997, the increase in prices in the food category was lower at 7.3 per cent. The price of wheat flour, which was revised upward in August 1997 remained at that level throughout 1998. The increase in the price of rice, the staple food, was slight during the year with prices of some varieties actually declining, due to the increase in paddy production by about 20 per cent when compared to last year. The contribution of rice to the overall increase of the CDCPI was only 1 per cent, while the contribution of bread and wheat flour was just below 5 per cent. In contrast, prices of most varieties of vegetables increased sharply during the first half of the year. Heavy rains in the closing two months of 1997, the very warm weather conditions in March/April and the windy conditions in the Nuwara-Eliya area which came earlier than usual, adversely affected the production of vegetables. In the second half of the year, however, vegetable prices declined due to improved supplies. Vegetables are estimated to have contributed to around 13 per cent of the overall increase of the CDCPI during the year.

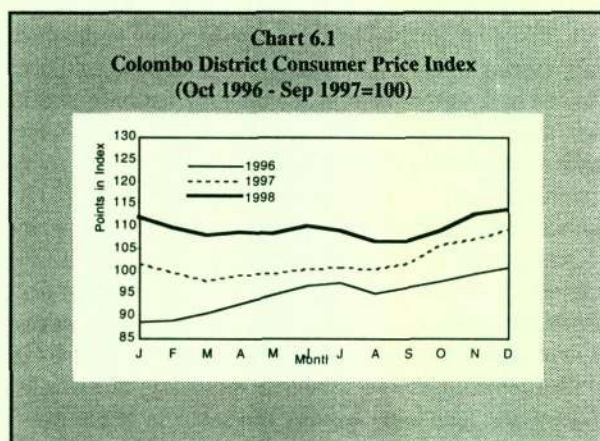
Among major subsidiary foods, the prices of dried chillies and red onions registered increases exceeding 30 per cent, while the price of big onions increased by over 70 per

TABLE 6.2  
Colombo District Consumer Price Index  
(Oct 1996 - Sep 1997=100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change		Contribution to increase in 1998 (%)
		1997	1998	1997	1998	Dec. 1997	Dec. 1998	
All Items	100.0	102.0	109.5	7.4	7.3	8.3	4.0	100.0
Commodity Wise								
Food & Drink	58.7	102.0	111.1	7.3	8.9	8.3	3.8	71.5
Housing	13.2	101.7	105.0	4.4	3.3	6.7	1.1	5.9
Fuel & Light	4.9	104.3	118.7	8.9	13.8	16.8	2.5	9.5
Clothing & Footwear	6.2	101.8	104.2	10.1	2.4	6.7	2.5	2.0
Liquor, Tobacco, Betel & Arecanut	4.4	103.2	111.0	14.1	7.6	11.8	10.8	4.7
Personal Care & Health Services	3.8	103.1	109.1	14.4	5.8	12.6	6.6	3.1
Education & Recreation	2.8	101.1	102.3	4.6	1.2	4.5	2.4	0.4
Transport	3.7	100.1	100.3	1.4	0.2	0.5		0.1
Miscellaneous	2.2	101.7	111.3	7.0	9.5	5.1	13.9	2.9

Source: Central Bank of Sri Lanka

cent. The price of potatoes also increased sharply. The upsurge in prices of subsidiary food items was brought about by the sharp drop in domestic production in response to depressed prices registered last year, as well as the relatively higher import prices that prevailed owing to production shortfalls in several supplying countries. Major subsidiary food crops like dried chillies, onions and potatoes contributed 19 per cent of the increase in the CDCPI. The price of coconuts increased by about 12 per cent during the year following a further drop in domestic production. These price increases were slightly offset by the decrease in the price of sugar due to lower world market prices.



Prices in the fuel and light category increased by 13.8 per cent in 1998 when compared with a lower increase of 8.9 per cent last year. The impact of the increase in the tariff on electricity in September 1997 was a major reason for the increase in the fuel and light category during the year. Price increases in this category were found to have contributed 9.5 per cent of the increase in the overall index.

Prices in the housing; clothing and footwear; liquor, tobacco, betel and arecanut; personal care and health;

education and recreation; and transport categories all decelerated, registering increases of 3.3 per cent, 2.4 per cent, 7.6 per cent, 5.8 per cent, 1.2 per cent and 0.2 per cent, respectively, as compared with 4.4 per cent, 10.1 per cent, 14.1 per cent, 14.4 per cent, 4.6 per cent and 1.4 per cent, respectively, last year. The deceleration in the rate of increase in the clothing and footwear category could be mainly attributed to the liberalisation of the textile sector in the 1998 Budget. Prices in the miscellaneous category, however, accelerated, registering an increase of 9.5 per cent in 1998 as compared with 7.0 per cent last year.

### Colombo Consumers' Price Index

The Colombo Consumers' Price Index (CCPI), which recorded an annual average increase of 9.4 per cent in 1998, registered a point to point increase of 3.7 per cent in December 1998 as compared to a much higher point to point increase of 10.7 per cent registered at the end of last year. The CCPI has consistently indicated a higher inflation rate than both the CDCPI and GCPI. This could be attributed to both the greater impact of the overall food category, as well as of some individual food items such as vegetables (which registered sharp increases in 1998) in this index when compared to both the CDCPI and the GCPI.

Food prices, which contributed to 84 per cent of the increase in the overall index, rose by 10.9 per cent during the year. This increase was similar to the increase registered for food prices in the CCPI last year. Higher prices of vegetables, coconut and subsidiary foods, such as dried chillies, red onions and potatoes, were mainly responsible for the rise in food prices during the year.

Prices in the clothing, fuel and light and miscellaneous categories decelerated, registering increases of 1.0 per cent, 3.2 per cent and 7.5 per cent, respectively, as compared with sharper price increases of 2.7 per cent, 4.5 per cent, 8.2 per cent, respectively, registered last year. The contributions

**TABLE 6.3**  
**Colombo Consumers' Price Index**  
(1952=100)

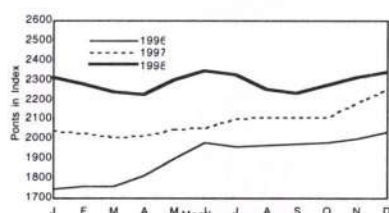
Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change		Contribution to increase in 1998 (%)
		1997	1998	1997	1998	Dec. 1997	Dec. 1998	
<b>All Items</b>	100.0	2089.1	2284.9	9.6	9.4	10.7	3.7	100.0
<b>Commodity-wise</b>								
Food	61.9	2336.9	2592.1	10.9	10.9	13.3	2.3	84.0
Clothing	9.4	844.0	852.3	2.7	1.0	1.4	1.6	0.4
Fuel & Light	4.3	3752.8	3872.8	4.5	3.2	4.7	0.2	2.6
Rent	5.7	109.8	109.8	-	-	-	-	-
Miscellaneous	18.7	2157.8	2319.9	8.2	7.5	4.7	12.7	13.0

Source: Department of Census and Statistics



towards the increase in the CCPI in 1998 from the fuel and light and miscellaneous categories were approximately 3 per cent and 13 per cent, respectively.

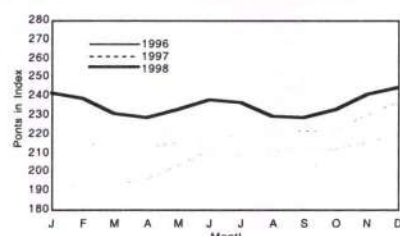
**Chart 6.2**  
**Colombo Consumers' Price Index**  
(1952 = 100)



### Greater Colombo Consumers' Price Index

In terms of the GCPI, food prices rose by 7.7 per cent in 1998 compared with 7.5 per cent in 1997. Prices in the fuel and light category increased by 6.4 per cent in 1998 as

**Chart 6.3**  
**Greater Colombo Consumers' Price Index**  
(Jan. to Jun. 1989 = 100)



compared with an increase of 5.2 per cent in 1997. Reflecting the impact of the liberalisation of textile imports, price increases in the clothing category decelerated to 1.9 per cent in 1998 from 4.0 per cent last year. Price increases in the liquor, tobacco, betel and arecanut; personal care and health services, household goods and services; transport and communication and miscellaneous categories also decelerated.

### Wholesale Price Index

The annual average increase of the Wholesale Price Index (WPI) declined to 6.1 per cent in 1998 from 6.9 per cent in 1997. The drop in paddy prices, the lower import prices for wheat grain and rice, the relatively lower increase in tea prices, the decline in rubber prices and unchanged prices for petroleum products were some of the contributory factors for the slow down in prices at the primary market level. Prices in the alcoholic drinks, textiles and footwear, chemical and chemical products, metal products, and fuel and light categories, also showed lower increases in 1998.

Prices in the food group increased by 8.0 per cent in 1998, a lower increase in comparison to the 8.8 per cent rise registered last year. In the food group, the open market producer price of paddy dropped by around 6 per cent due to enhanced production during the year. The CIF prices of imported rice and wheat grain also declined due to lower international commodity prices. Meanwhile, prices of both mid-grown and low grown tea registered lower increases of 13 per cent and 10 per cent as compared with increases of 20 per cent and 13 per cent last year. These developments were the main contributory factors for the deceleration in food prices in the Wholesale Price Index. As in the case of retail prices, however, prices of subsidiary food crops and vegetables accelerated at the primary market level.

Prices of alcoholic drinks, textiles and footwear, chemical and chemical products, metal products, and fuel and light categories showed lower increases in 1998. However, prices in the paper products, machinery and miscellaneous categories, which had registered declines in 1997, registered increases in 1998.

**TABLE 6.4**  
**Greater Colombo Consumers' Price Index**  
(January to June 1989 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1997	1998	1997	1998	Dec. 1997	Dec. 1998
<b>All Items</b>	100	220.1	235.2	7.1	6.9	7.9	3.5
<b>Commodity Wise</b>							
Food & Drink	69.3	232.2	250.1	7.5	7.7	8.9	2.4
Liquor, Tobacco, Betel & Arecanut	3.8	273.4	295.8	9.0	8.2	4.2	21.4
Housing	8.9	109.9	110.0	0.1	0.1	0.2	-
Fuel & Light	5.4	227.1	241.6	5.2	6.4	9.2	0.6
Clothing & Footwear	2.8	227.1	231.4	4.0	1.9	2.7	6.8
Personal Care & Health Services,							
Household Goods and Services	4.9	227.0	242.7	11.9	6.9	10.9	5.9
Transport & Communication	2.8	195.0	196.0	7.3	0.5	0.4	0.8
Miscellaneous	2.1	179.2	183.5	3.1	2.4	1.5	11.3

Source: Department of Census and Statistics



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

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1997	1998(a)	1997	1998(a)	Dec 1997	Dec 1998 (a)
<b>All Items</b>	100.0	1224.3	1298.7	6.9	6.1	6.6	0.9
<b>Commodity Wise</b>							
Food	67.80	1132.2	1223.2	8.8	8.0	8.1	0.2
Alcoholic Drinks	2.86	1361.3	1398.3	15.8	2.7	-	21.1
Textile & Footwear	4.02	633.8	634.5	1.2	0.1	-	0.2
Paper Products	1.37	902.9	915.0	-15.1	1.3	-0.7	2.0
Chemicals & Chemical Products	5.16	717.3	772.0	8.5	7.6	8.4	8.4
Petroleum Products	6.42	1528.2	1528.2	11.2	-	-	-
Non Metallic Products	1.78	2387.6	2655.8	6.6	11.2	24.1	6.5
Metal Products	0.93	806.1	816.3	2.8	1.3	2.1	0.4
Transport Equipment	0.80	937.3	933.9	3.2	-0.4	1.2	-4.6
Electrical Appliances & Supplies	0.96	800.6	837.9	4.3	4.7	4.3	1.5
Machinery	1.33	596.1	651.3	-1.4	9.3	1.3	11.6
Fuel & Light	1.79	2694.8	2824.7	11.8	4.8	17.1	-11.1
Miscellaneous	4.78	2582.5	2587.5	-5.4	0.2	-2.7	0.4
<b>Sectorwise No. I</b>							
Domestic Group	50.31	1059.1	1111.6	6.5	5.0	8.0	2.8
Import Group	27.17	933.5	934.1	8.2	0.1	3.7	0.1
Export Group	22.52	1944.5	2156.7	6.7	10.9	6.5	-0.9
<b>Sectorwise No. II</b>							
Consumer Goods	75.30	1190.4	1280.8	8.9	7.6	8.2	0.9
Intermediate Goods	20.52	1324.6	1328.7	1.2	0.3	-1.0	-0.4
Investment Goods	4.18	1342.7	1473.5	5.6	9.7	18.7	6.5

(a) Provisional

Source: Central Bank of Sri Lanka

Sectorwise, prices in both the domestic and import groups increased slowly in 1998. Prices in the export category accelerated in 1998. The improvement in the export price of coconuts was a major contributory factor for this acceleration.

In the end-use classification, price increases in the consumer and intermediate categories decelerated, while prices in the investment category accelerated in 1998.

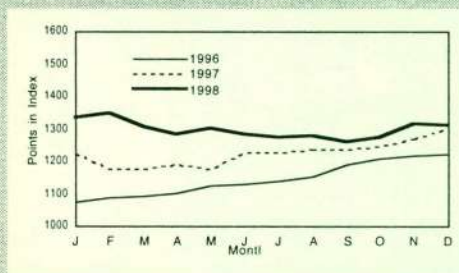
**TABLE 6.6**  
**Retail Sales Prices of Selected Food Items**  
**(All Island)**

Item	Unit	Rupees		
		1997	1998(a)	Changes in 1998(a)
Rice (Ordinary par boiled)	Kg.	22.26	22.03	-1.0
Bread, 450 gm.	Loaf	7.57	8.25	9.0
Eggs (Ordinary)	Each	4.46	4.21	-5.6
Coconut (Medium)	Each	8.82	9.76	10.7
<b>Vegetables</b>				
Bitter Gourd	Kg.	26.98	32.00	18.6
Cabbages	"	24.64	31.90	29.5
Carrots	"	34.90	43.42	24.4
Green Beans	"	33.40	41.34	23.8
Leeks	"	31.72	39.39	24.2
Potatoes	"	32.29	37.28	15.5
Red Onions (Medium)	"	46.65	65.50	40.4
Dried Chillies (Gr. I)	"	98.86	125.78	27.2
<b>Sea Fish</b>				
Kelawalla	Kg.	149.16	150.49	0.9
Mullet	"	118.71	121.37	2.2
Hurulla	"	83.74	87.87	4.9
Salaya	"	61.00	64.33	5.5

(a) Provisional

Source: Central Bank of Sri Lanka

**Chart 6.4**  
**Wholesale Price Index**  
**(1974 = 100)**



## Regional Price Variations

As in the previous year, regional variations in the prices of less perishable items such as rice, dried chillies and potatoes were relatively low, while substantial variability was observed with respect to prices of vegetables and fish. Regional variation in prices of eggs and coconuts was observed to have widened in 1998 when compared with 1997.

In conformity with the regional production patterns, samba rice was lowest in price in Anuradhapura, while Matara recorded the lowest prices for kekulu rice. The highest prices for rice were registered in Colombo. Prices of vegetables were lower in regional centres when compared to Colombo with lowest prices being registered in



**TABLE 6.7**  
**Average Retail Prices of Selected Food Items in Selected Markets in 1998 (a)**

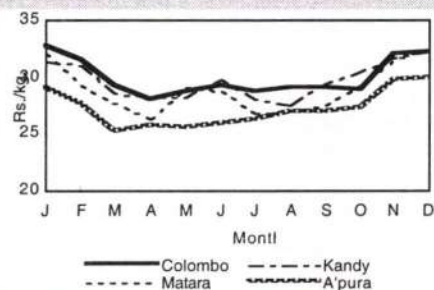
Item	Prices (Rs./Kg.)				Difference from Colombo(%)		
	Colombo	Kandy	Matara	Anuradhapura	Kandy	Matara	Anuradhapura
Samba Rice	29.96	29.71	28.95	27.22	-0.8	-3.4	-9.1
Kekulu Rice	24.61	24.05	21.11	22.57	-2.3	-14.2	-8.3
Beans	53.71	44.61	41.59	39.89	-16.9	-22.6	-25.7
Cabbages	40.98	33.26	33.64	31.69	-18.8	-17.9	-22.7
Brinjals	35.13	24.72	21.50	20.15	-29.6	-38.8	-42.6
Pumpkins	24.51	23.44	19.38	17.11	-4.4	-20.9	-30.2
Red Onions	66.16	73.55	66.08	61.11	11.2	-0.1	-7.6
Big Onions	42.22	42.33	41.88	42.03	0.3	-0.8	-0.5
Potatoes	32.72	33.12	32.20	32.20	1.2	-1.6	-1.6
Dried Chillies	130.00	136.38	130.75	129.33	4.9	0.6	-0.5
Kelawalla	138.85	165.17	158.00	165.28	19.0	13.8	19.0
Hurulla	80.48	98.56	71.06	94.33	22.5	-11.7	17.2
Eggs (each)	3.42	3.63	4.03	3.62	6.1	17.8	5.8
Coconut (each)	13.40	11.22	13.07	10.50	-16.3	-2.5	-21.6

(a) Provisional

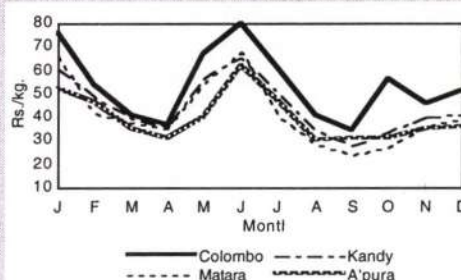
Source: Central Bank of Sri Lanka

**Chart 6.5**  
**Monthly Prices of Selected Commodities**

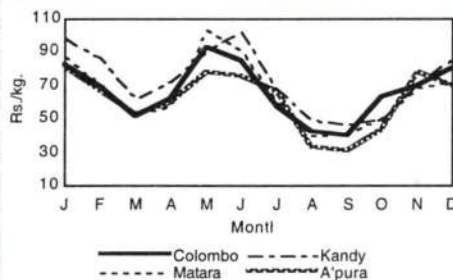
**Chart 6.5.1**  
**Samba Rice**



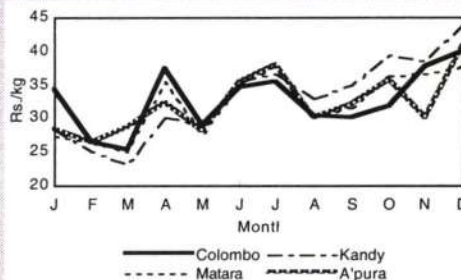
**Chart 6.5.2**  
**Beans**



**Chart 6.5.3**  
**Red Onions**



**Chart 6.5.4**  
**Potatoes**



Anuradhapura. Prices of eggs were lowest in Colombo. A notable feature in price variation with respect to eggs was that comparatively high prices prevailed in the Matara market in 1998.

Seasonal variations were fairly similar in the four markets considered. However seasonal variations in the price of rice seemed less pronounced than in 1997. Prices of beans displayed a sharper seasonal behaviour in 1998 than in 1997 in all markets, with prices declining from relatively high levels in January to low levels in March - April and thereafter increasing sharply again to reach a peak level in June. Prices dropped thereafter and were relatively low in the second half of the year. This pattern of price behaviour was observed in the case of most vegetables. Prices of beans in Colombo were found to be notably higher than those prevailing in the regional markets throughout the year. Prices of red onions displayed a clear seasonal pattern as in the previous year. However, due to the lower production, prices did not plummet to such low levels as in 1997 during the glut season. It is also notable that prices of red onions in the Kandy market exceeded those in the Colombo market during most of the year. Prices of potatoes also indicated less seasonality than in 1997 due to lower production and the availability of imports throughout the year.

Variation of commodity prices across regions as well as within regions during the year has declined somewhat in the last three years. Further reduction of this variability would be useful for both consumers and producers since traders who have a high degree of influence in the market can exploit market conditions when prices are highly variable due to weaknesses in marketing arrangements. This situation can be improved for the benefit of both consumers and producers if commercial production and marketing systems are developed by improving extension services and regional marketing infrastructure including the development of

packing, handling and storage facilities with increased private sector participation. Mechanisms for developing an efficient forward market for agricultural products should also be explored.

## 6.2 Wages

Both nominal and real wages improved in the public sector in 1998. This was the outcome of the nominal wage increase given to all categories of public sector employees following the implementation of the second phase of the B. C. Perera Salary Review Committee proposals. In the organised private sector, minimum wages applicable to a large number of Wages Boards were revised upwards and as a result, a substantial increase in wages was recorded for most categories of workers. The growth in overall wages in the organised private sector was sharper than in 1997. Real wages of workers in agriculture, industry and commerce improved. In the informal sector, wages increased in nominal terms in most major activities. Significant real wage improvements were registered in major activities in paddy, tea and coconut cultivation. A reduction of real wages was observed in building construction activities as well as in major activities in rubber cultivation.

### Public Sector

In the public sector, the restructuring of salary scales proposed by the Salary Review Committee was implemented in a phased manner. The first phase took effect from 1 January 1997, when 40 per cent of the increase recommended, subject to a minimum of Rs.325 per month, was granted. In the second phase of the revision, the balance of the recommended increase was granted on 1 January 1998 to all employees excepting those whose consolidated annual salaries exceeded Rs.90,000 according to the revised scales. For the latter category the second phase of the salary revision came into effect from 1 July 1998.

TABLE 6.8  
Wage Rate Index Numbers  
(December 1978=100)

	Nominal		Real		Percentage Change in 1998	
	1997	1998(a)	1997	1998(a)	Nominal (a)	Real (a)
<b>1. Government Employees</b>						
Central Government Employees	906.5	1001.4	104.0	104.9	10.5	0.9
Non-Executives	842.9	959.6	96.7	100.5	13.8	3.9
Minor Employees	966.7	1029.1	110.8	107.8	6.5	-2.7
Government School Teachers	778.5	805.5	89.3	84.4	3.5	-5.5
<b>2. Workers in Wages Boards Trades</b>						
All Wages Boards Trades	849.1	953.3	97.3	89.9	12.3	-2.7
Workers in Agriculture	971.8	1097.7	111.4	115.0	13.0	3.2
Workers in Industry & Commerce	710.8	807.7	81.4	84.6	13.6	3.9
Workers in Services	487.2	506.4	55.9	53.0	3.9	-5.2

(a) Provisional

Sources: Department of Labour  
Central Bank of Sri Lanka

As a result of these wage increases, wages in the government sector, as measured by the Nominal Wage Rate Index, increased by 10.5 per cent in 1998 following an increase of 10.8 per cent in 1997. Given a consumer price inflation of 9.4 per cent (in terms of the CCPI) during the year, this represents a moderate real wage improvement of 0.9 per cent which follows the improvement of 1.0 per cent last year. Wages in the non-executive category increased by a substantial 13.8 per cent, which represents a real wage increase of 3.9 per cent. In the previous year, this category of workers had received a nominal wage increase of 11.3 per cent which represented a real wage improvement of 1.5 per cent. Wages in the minor employee category increased at a slower rate of 6.5 per cent representing a real wage deterioration of 2.7 per cent. In the previous year, although the increase in the nominal wages of this category was 10.0 per cent, their real wage improved only by 0.2 per cent. Nominal wages of government school teachers, which increased moderately by 3.5 per cent, represented a real wage deterioration of 5.5 per cent in 1998.

### Organised Private Sector

In the organised private sector there was a major revision of wages in the plantation sector. Plantation workers covered by the collective agreement that was effected in settlement of the industrial dispute in plantations were granted a wage increase with effect from 1 January 1998. Under this agreement, the daily wages of adult workers were increased from Rs.83 to Rs.95. In the case of workers in the tea sector, an additional price share supplement of Rs.6 per day also became payable. This payment is, however, subject to review at the end of 18 months or earlier if there is a serious downturn in tea prices. For workers in the rubber sector, a price share supplement is also payable on a fluctuating basis at the rate of 30 cents for each one rupee increase in the price of rubber (RSS No.1), over the threshold price of Rs.65. These price share supplements, however, do not attract Employees' Provident Fund or Employees' Trust Fund benefits. The collective agreement covered workers in plantations in the Sri Lanka State Plantations Corporation, Janatha Estates Development Board and Regional Plantation Companies.

Plantation workers not covered by the above agreement are covered by the relevant Wages Boards. Their minimum wages, which had also been fixed at Rs.83 per day, were increased to Rs.95 from October 1998 in the case of the tea growing and manufacturing trade and from November 1998 in the case of the rubber growing and manufacturing trade. Minimum wages were also increased in 1998 by 19 other Wages Boards. These were the Wages Boards covering Paddy Hulling, Match Manufacturing, Building, Janitorial Services, Baking, Biscuit and Confectionery Manufacturing, Hosiery Manufacturing, Hotel and Catering, Cinema, Ice and Aerated Water Manufacturing, Garment Manufacturing, Tyre

and Tube Manufacturing, Engineering, Motor Transport, Nursing Home, Retail and Wholesale Trade, Coir Mattresses and Fibre Export, Coconut Growing and Liquor and Vinegar Manufacturing.

Wage movements in the organised private sector are monitored by the Minimum Wage Rate Indices in Wages Boards Trades. As a result of the above-mentioned revision in minimum wages of a large number of Wages Boards, the Minimum Wage Rate Index of all workers covered by Wages Boards increased by 12.3 per cent in nominal terms in 1998. This increase is significantly higher than the increase of 5.9 per cent registered for these workers in 1997. In contrast to the previous year, when real wages had deteriorated by 3.4 per cent, an overall improvement in real wages of 2.7 per cent was registered in 1998. Wages of workers in agriculture improved by 13.0 per cent in nominal terms representing a real wage improvement of 3.2 per cent due to revisions in plantation wages. Minimum wages for workers in industry and commerce improved by a substantial 13.6 per cent in nominal terms representing a real wage improvement of 3.9 per cent. Workers in services received a more moderate nominal wage increase of 3.9 per cent, indicating a decline in real wages.

### Informal Sector

Information on daily wages in the informal sector is collected through the Countrywide Data Collection System of the Central Bank. According to provisional data, daily wages of carpenters and masons in small scale construction activities increased on average by 7 per cent and 8 per cent, respectively, in 1998. Wages for skilled helpers in carpentry and masonry increased by 9 per cent and 7 per cent, respectively. Meanwhile, wages for unskilled helpers in building construction registered increases of between 7 and 8 per cent. In paddy cultivation, wages for different major activities registered increases ranging from 9 to 15 per cent. Real wages were reported to have improved for workers engaged in ploughing, broadcasting, spraying, weeding, harvesting and threshing. In small scale tea plantations, wages for major activities improved significantly, reflecting both the impact of the increase in minimum wage rates applicable to the tea sector and the buoyant tea prices. Daily wages for preparation of land and for female pluckers increased by 10 per cent and 12 per cent, respectively. In contrast, in rubber smallholdings, wages for tapping declined slightly in nominal terms reflecting the deterioration in rubber prices (in some cases, payment for tapping is tied to the value of latex tapped). Reflecting the improvement in coconut prices, wages in activities in coconut cultivation improved substantially with wages for digging of pits increasing by 13 per cent and wages for plucking (with sticks) increasing by over 20 per cent. Accordingly, real wages improved substantially for workers engaged in these activities in coconut cultivation.