

6. PRICES AND WAGES

6.1 Prices

The rate of inflation declined in 1999 to its lowest since 1985, and this was one of the major favourable macro-economic developments during the year. The low inflation in 1999 was a combined outcome of prudent monetary management, better fiscal discipline, rationalised tax and tariff structures, improved agricultural production, low world market prices for imported food items, better communications facilities and measures to improve market mechanisms through dissemination of market information coupled with the establishment of regional trade centres like the one at Dambulla. The low inflation trend helped considerably to reduce pressure on interest rates, wages, exchange rates and international competitiveness and eased the burden of overall macro-economic management.

The Central Bank reduced the statutory reserve requirement and provided signals to the market of the desirability of lower interest rates in the context of declining inflation and relatively stable exchange market conditions to encourage economic activities. In spite of a lower than anticipated increase in consumer prices, the Bank proceeded cautiously to avoid any re-emergence of demand driven inflationary pressures. Meanwhile, government continued to exercise greater fiscal prudence and restraint, despite elections and slower growth in revenues, to complement the monetary stance. Current expenditure was kept under restraint and in development expenditure priority was given to projects that contribute to release infrastructural and supply constraints. The drop in world market prices of several essential commodities off-setting upward pressure on prices through the depreciation of the rupee in 1999 kept the domestic price increases of those items from rising; for some commodities such as sugar and wheat, there was a decline in prices. The introduction of the Goods and Services Tax (GST) in 1998 helped to reduce inflationary pressures arising from the cascading effects of the earlier Turnover Tax. Moreover, a lower rate tariff structure helped further moderate the prices of imported consumer goods. The rate of increase in food prices decelerated sharply from 8.9 per cent in 1998 to 2.4 per cent in 1999, due to improved domestic supply of rice, vegetables, coconuts and fish, as well as the increased availability of imported food items. The narrowing of regional price variations in 1999 was a favourable outcome emerging from the development of regional marketing centres, which have gradually helped to improve efficiency in wholesale marketing and the distribution of agricultural commodities. Wider dissemination of information on market conditions and prices through the media also appears to have helped reduce price fluctuations by facilitating market clearance. The wage stability in both public and private sectors also helped to ease inflation.

A forward sales contract system has been introduced by the Central Bank as a further measure to stabilise prices of agricultural commodities. Under this scheme, known as 'Govi Sahanaya', farmers are able to sell their crops in advance at remunerative contracted prices. They are also provided with a contract document usable as collateral when borrowing from lending institutions, thereby easing their borrowing constraints. It is expected that this scheme will reduce risks associated with price volatility in these markets, thereby providing an environment more conducive for farmers, traders and agro-processing firms to formulate their production and business plans with greater confidence.

The annual average inflation rate as measured by the Colombo District Consumer Price Index (CDCPI), computed by the Central Bank of Sri Lanka (CBSL), was 3.6 per cent in 1999, compared with 7.3 per cent in 1998. The Colombo Consumers' Price Index (CCPI), computed by the Department of Census and Statistics (DCS), indicated a similar trend by registering a lower inflation rate of 4.7 per cent in 1999 as against 9.4 per cent in the previous year. The Greater Colombo Consumers' Price Index (GCPI), an alternative price index computed by the DCS, also indicated a substantial deceleration in the general price increase. The annual average increase in the GCPI in 1999 was 3.8 per cent, compared with 6.9 per cent in 1998. The Wholesale Price Index (WPI) computed by the CBSL reflected a decline of 0.3 per cent in 1999. In 1998, the WPI increased by 6.1 per cent.

TABLE 6.1
Annual Average Price Changes (%)

Year	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	8.4
1999	4.7	3.8	3.6	-0.3(a)	4.4

(a) Provisional

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

Lower inflation and a gradual smoothening of price fluctuations of domestically produced items, mainly vegetables, was noteworthy during the year. The decline in vegetable prices was attributed to an increase in the extent under cultivation and the availability of better quality seed materials through liberalisation of seed imports. Improvements in the distribution network through well-established wholesale market centres in producing areas (e.g. Dambulla Dedicated Economic Centre) also contributed to price stability. Prices of fish, both inland and marine, fell in 1999 as supplies increased. Coconut prices too dropped in 1999 reflecting increased production.

Although the rupee depreciated against the US dollar by 6 per cent in 1999, the drop in world market prices of major imported consumer items such as rice, sugar and wheat grain more than compensated for the upward pressure on rupee prices through currency depreciation. The price of imported rice in US dollars dropped by 13 per cent. Sugar and wheat prices dropped by 26 per cent and by 10 per cent, respectively, in 1999. Following world market trends, the domestic price of wheat flour was reduced administratively to extend the benefit to the consumers.

The monetary measures aiming at easing domestic demand pressures too helped to arrest inflation. The containment of the growth of money supply to around 13-14 per cent, despite a somewhat higher than originally anticipated demand for domestic resources by government, prevented a build up of excessive demand pressure in the economy.

Price behaviour during 1999 followed the normal seasonal pattern with the price levels declining (according to all consumer price indices), during February – March and July – September, the months which correspond to the seasonal harvesting periods of Maha and Yala, respectively. Although rice prices declined after the Maha harvest, they remained at a significantly higher level in comparison to the

previous year partly due to farmer organisations and companies increasingly providing storage services, inducing controlled release of stocks to the market, in order to improve farmer income. Prices declined in June, ahead of the usual seasonal pattern. The upsurge in vegetable prices usual during that month was not experienced this year owing to abundant supply.

Reaching a lower inflation rate of 4.7 per cent in 1999 following a general declining path over the last few years was a favourable macro-economic development. The average inflation rate as reflected in the movement of CCPI for the period 1980-89 was 12.8 per cent whereas the corresponding rate for the period 1990-99 was 11.3 per cent. Relatively lower inflation in the 1990s compared to the 1980s becomes further evident when the extreme years in the two periods (1985 with an inflation rate of 1.5 per cent and 1990 with an inflation rate of 21.5 per cent) are excluded. The adjusted average inflation rates are 14.1 per cent for the 1980s and 10.1 per cent for the 1990s.

Colombo District Consumer Price Index (CDCPI)

The CDCPI recorded an annual average increase of 3.6 per cent in 1999 compared to 7.3 per cent in 1998. The significant deceleration in the overall index during the year was mainly due to lower price increases recorded in the sub-index of food which has a share of around 59 per cent in the overall index. The annual average increase in this sub-index was 2.4 per cent compared to 8.9 per cent in the previous year. The food category contributed 39.7 per cent of the increase in the overall index in 1999 compared to 71.5 per cent in 1998. Prices of most varieties of vegetables, fish, potatoes, dried chillies and onions remained low during the year. Administratively reduced prices of wheat flour and low sugar prices in the world market also contributed to this trend. The other sub-indices where prices decelerated were

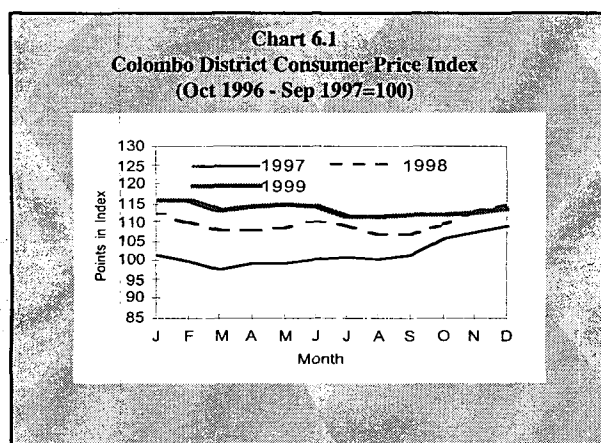
TABLE 6.2
Colombo District Consumer Price Index
(Oct 1996 - Sep 1997=100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change		Contribution to Increase in 1999 (%)
		1998	1999	1998	1999	Dec. 1998	Dec. 1999	
All Items	100.0	109.5	113.4	7.3	3.6	4.0	-0.1	100.0
Commodity Wise								
Food & Drink	58.7	111.1	113.8	8.9	2.4	3.8	-3.1	39.7
Housing	13.2	105.0	109.5	3.3	4.3	1.1	3.8	0.9
Fuel & Light	4.9	118.7	119.4	13.8	0.6	2.5	0.3	15.2
Clothing & Footwear	6.2	104.2	106.2	2.4	1.9	1.9	2.3	3.2
Liquor, Tobacco								
Betel & Arecanut	4.4	111.0	135.4	7.6	22.0	19.8	14.0	27.4
Personal Care and Health Services	3.8	109.1	113.5	5.8	4.1	6.6	-0.4	4.3
Education & Recreation	2.8	102.3	104.2	1.2	1.9	2.4	-	1.4
Transport & Communication	3.7	100.3	103.9	0.2	3.6	-	10.8	3.4
Miscellaneous	2.3	111.3	119.3	9.5	7.1	13.9	1.2	4.5

Source: Central Bank of Sri Lanka

fuel and light (from 13.8 per cent to 0.6 per cent), clothing (from 2.4 per cent to 1.9 per cent), personal care and health (from 5.8 per cent to 4.1 per cent) and miscellaneous categories (from 9.5 per cent to 7.1 per cent).

In contrast to the general decelerating trend, the sub-indices of housing; transport; liquor, tobacco, betel and arecanut and education and recreation rose faster. Housing, with a share of around 13 per cent, increased by 4.3 per cent compared to 3.3 per cent in 1998. The transport sub-index increased by 3.6 per cent in 1999 compared to 0.2 per cent in 1998 due to the price revision in the private sector passenger transport services by 15 per cent in the second half of 1999. The sub index of liquor, tobacco, betel and arecanut, indicated a sharp increase of 22 per cent in 1999 compared to 7.6 per cent in 1998 due to increases in prices of arecanut and tobacco. In October 1999, the price of a cigarette rose by fifty cents.

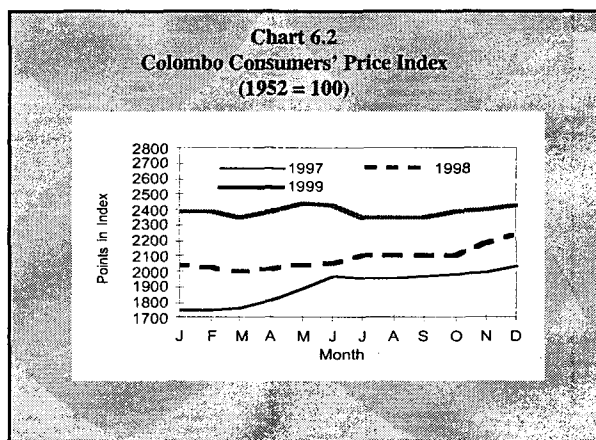


Colombo Consumers' Price Index (CCPI)

The CCPI recorded an annual average increase of 4.7 per cent in 1999, which is the lowest figure after 1985. The CCPI has been on a gradually declining trend since the fourth quarter of 1998. This is mainly due to the declining trend in the food price sub-index, which has the highest share of around 72 per cent in total expenditure. The annual

average increase in the food sub index was 4 per cent against an increase of 10.9 per cent in the previous year.

The rise in prices in the fuel and light group also slowed down, to 1.5 per cent in 1999 as compared with 3.2 per cent in the previous year. Prices in the clothing category increased by 1.3 per cent, which was somewhat higher than the increase of 1 per cent in 1998. In the miscellaneous category, prices accelerated significantly, increasing by 10.3 per cent in 1999, as compared to an increase of 7.5 per cent in 1998 due to significantly higher prices of arecanut in 1999.



Greater Colombo Consumers' Price Index (GCPI)

The GCPI registered an annual average inflation rate of 3.8 per cent in 1999 compared with 6.9 per cent in 1998. The prices in the food category, with a share of around 70 per cent of the GCPI basket, increased at a significantly lower rate of 2.8 per cent compared to 7.7 per cent in 1998. This impact was the main reason for the slower growth of the overall index in 1999.

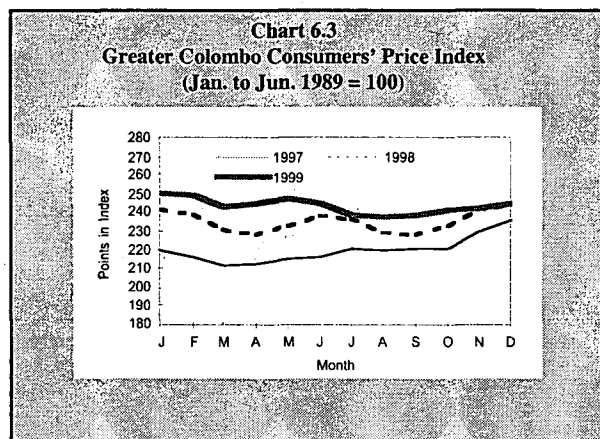
The other sub-categories with relatively lower shares in the index showed mixed changes in prices during the reference period. The sub category of liquor, tobacco, betel

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 1999 (%)
		1998	1999	1998	1999	Dec.1998	Dec.1999	
All Items	100.0	2,284.9	2,392.1	9.4	4.7	3.7	4.0	100.0
Commodity -wise								
Food	61.9	2,592.1	2,695.4	10.9	4.0	2.3	3.5	61.9
Clothing	9.4	852.3	863.3	1.0	1.3	1.6	0.6	1.0
Fuel & Light	4.3	3,872.8	3,929.7	3.2	1.5	0.2	1.6	2.3
Rent	5.7	109.8	109.8	-	-	-	-	-
Miscellaneous	18.7	2,319.9	2,558.1	7.5	10.3	12.7	7.8	34.8

Source: Department of Census and Statistics

and arecanut indicated a price increase of 18.4 per cent compared to 8.2 percent in 1998. The sub categories of clothing and footwear; transport and communications and miscellaneous items also registered price increases. The prices in the sub-categories of fuel and light and health services decelerated during the year while prices in the housing sub category remained unchanged.



Wholesale Price Index (WPI)

The WPI, which represents price movements at the primary market level, dropped slightly in 1999. The annual average index value for 1999 was 1,295.3. This value, when compared with the corresponding index value of 1298.7 in 1998, registered a marginal drop of 0.3 per cent. Declines were observed in the sub indices of food (by 0.9 per cent), metal products (by 8.2 per cent), transport equipment (by 5.1 per cent), fuel and light (by 4.6 per cent) and the miscellaneous category (by 3.4 per cent).

As in the case of retail market prices, indices in the food category had a major impact on the wholesale price index. The decline in the prices of all varieties of tea, vegetables, fish, potatoes, onions, dried chillies, chicken and

eggs led to the increase in the sub-index being marginal. This trend was supported by the decrease in the CIF value of imported sugar, wheat grain and rice. Price decreases of steel in the metal products categories and tyres in the transport equipment category were the major items that contributed to the decline in these sub-indices. Price declines in firewood in the fuel and light category and cinnamon quills, rubber and cardamom in the miscellaneous group also caused the decrease in the index.

These decreases were, however, offset to some extent by the increases in the prices of alcoholic drinks (by 18 per cent), textile and footwear (by 0.1 per cent), paper products (by 2.1 per cent), chemicals and chemical products (by 4.7 per cent), and non-metallic products (by 3.4 per cent), electrical appliances and supplies (by 0.5 per cent) and machinery (by 6.2 per cent).

The increase in the alcoholic drinks group by 18 per cent was attributed to the sharp increase in the price of arrack. The higher prices of wood pulp contributed to the increase in the paper products category.

In the chemicals and chemical products group, the price increases of some fertiliser items, some varieties of pharmaceutical products and both toilet and washing soap led the relevant category to register an increase of 4.7 per cent. The non-metallic products category moved up when compared with 1998 due to the higher price of tiles and sanitary ware. The electrical appliances and supplies category moved up due to the higher prices of dry battery cells. The prices of water pumps, refrigerators and sewing machines moved up, resulting in an increase in the machinery sub category by 6.2 per cent.

Sector wise, only the domestic group registered a price increase. The domestic sub index rose by 2.9 per cent in 1999 as against 5 per cent in 1998, indicating a deceleration in price increase. The imports and exports sub groups registered marginal declines of 0.1 per cent and 4 per cent, respectively. A significant drop in the CIF prices of imported items contributed to the decline of the import sub-index. In the export

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	
		1998	1999	1998	1999	Dec. 1998	Dec. 1999
All Items	100.0	235.2	244.1	6.9	3.8	3.5	0.4
Commodity Wise							
Food & Drink	69.3	250.1	257.1	7.7	2.8	2.4	-1.1
Liquor, Tobacco and Betel & Arecanut	3.8	295.8	350.4	8.2	18.4	21.4	11.3
Housing	8.9	110.0	110.1	0.1	0.1	-	0.1
Fuel & Light	5.4	241.6	244.7	6.4	1.3	0.6	1.5
Clothing & Footwear	2.8	231.4	245.9	1.9	6.3	6.8	1.1
Personal Care and Health Services,							
Household goods and Services	4.9	242.7	258.2	6.9	6.4	5.9	4.0
Transport & Communication	2.8	196.0	204.4	0.5	4.3	0.8	11.1
Miscellaneous	2.1	183.5	203.0	2.4	10.6	11.3	2.0

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	
		1998	1999(a)	1998	1999(a)	Dec 1998	Dec 1999 (a)
All Items	100.0	1,298.7	1,295.3	6.1	-0.3	0.9	-0.5
Commodity Wise							
Food	67.8	1,223.3	1,212.4	8.0	-0.9	0.2	-1.7
Alcoholic Drinks	2.9	1,398.3	1,649.3	2.7	18.0	21.1	0.2
Textile & Footwear	4.0	634.5	634.9	0.1	0.1	0.2	-
Paper Products	1.4	915.0	934.3	1.3	2.1	2.0	1.8
Chemicals & Chemical Products	5.2	772.0	807.9	7.6	4.7	8.4	1.9
Petroleum Products	6.4	1,528.2	1,528.2	-	-	-	-
Non Metallic Products	1.8	2,655.8	2,745.1	11.2	3.4	6.5	-3.3
Metal Products	0.9	816.3	749.1	1.3	-8.2	0.4	-9.0
Transport Equipment	0.8	933.9	886.2	-0.4	-5.1	-4.6	-0.9
Electrical Appliances & Supplies	1.0	837.9	842.5	4.7	0.5	1.5	-2.3
Machinery	1.3	651.3	691.4	9.3	6.2	11.6	0.2
Fuel & Light	1.8	2,824.7	2,693.9	4.8	-4.6	-11.1	6.2
Miscellaneous	4.8	2,587.5	2,500.7	0.2	-3.4	0.4	5.2
Sectorwise No. I							
Domestic Group	50.3	1,111.6	1,143.7	5.0	2.9	2.8	-0.2
Import Group	27.2	934.4	933.1	0.1	-0.1	0.1	-1.5
Export Group	22.5	2,156.7	2,071.4	10.9	-4.0	-0.9	-0.3
Sectorwise No. II							
Consumer Goods	75.3	1,280.8	1,279.6	7.6	-0.1	0.9	-1.1
Intermediate Goods	20.5	1,328.7	1,309.4	0.3	-1.5	-0.4	2.4
Investment Goods	4.2	1,473.5	1,509.0	9.7	2.4	6.5	-3.6

(a) Provisional

Source: Central Bank of Sri Lanka

category, a drop in the prices of tea of all three elevational categories, particularly in the first half of the year, and price declines of some varieties of minor export crops contributed to the drop in the sub-index. In the end-use classification the categories of consumer goods and intermediate goods registered marginal price declines, while the investment category registered a price increase of 2.4 per cent.

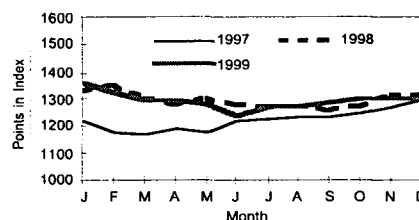
TABLE 6.6
Retail Sales Prices of Selected Food Items
(All Island)

Item	Unit	1998 (Rs.)	1999(a) (Rs.)	% Change in 1999(a)
Rice (Ordinary par boiled)	Kg.	22.03	26.38	19.7
Bread, 450 gm.	Loaf	8.25	8.28	0.4
Eggs (Ordinary)	Each	4.21	4.24	0.7
Coconut (medium)	Nut	9.76	10.02	2.7
Vegetables				
Bitter Gourd	Kg.	32.00	32.85	2.7
Cabbages	"	31.90	28.85	-9.6
Carrots	"	43.42	39.19	-9.7
Green beans	"	41.34	36.83	-10.9
Leeks	"	39.39	34.37	-12.7
Potatoes	"	37.28	32.46	-12.9
Red Onions (Medium)	"	65.50	54.25	-17.2
Dried Chillies (Gr. I)	"	125.78	132.08	5.0
Sea Fish				
Kelawalla	Kg.	150.49	147.73	-1.8
Mullet	"	121.37	124.62	2.7
Hurulla	"	87.87	85.20	-3.0
Salaya	"	64.33	58.89	-8.5

(a) Provisional

Source: Central Bank of Sri Lanka

Chart 6.4
Wholesale Price Index
(1974 = 100)



District-Wise Consumer Price Indices

In addition to the Colombo District Consumer Price Index (CDCPI), the Central Bank introduced three other separate consumer price indices for the districts of Anuradhapura, Matale and Matara. Compilation of these district-wise price indices was initiated with a view to ascertaining the inflationary trends in different areas more realistically. Hitherto, consumer price indices had been restricted to areas within the Colombo District and this hindered analysis of inflation in the rest of the country.

The need to make available more realistic indicators of consumer inflation has become critical in the context of greater focus on inflation targeting in monetary management. There is also a growing interest in these data among decision makers, particularly in the private sector. Internationally, certain standards have been set up by the International

Monetary Fund under the General Data Dissemination System (GDDS) and Special Data Dissemination Standard (SDDS) for the publication of economic and financial data by member countries. With the regular release of more up to date consumer price indices, by the Central Bank, Sri Lanka has met all the data requirements under the GDDS.

The methodology used to compute the new indices for the three districts is the same as that used in the computation of the CDCPI. Accordingly, the household expenditure patterns revealed in the Consumer Finances and Socio-Economic Survey (CFS) of 1996/97 conducted by the Central Bank were used to derive the weights for the commodities in the consumer baskets of each district index. The population coverage for these indices was the lowest 40 per cent, ranked by income. The base period is from October 1996 to September 1997. These indices are computed on a monthly basis.

Different households have different expenditure levels. However, for index calculations all the sampled households are treated as one group. The monthly average expenditure values for the sampled household group for each district are given in Table 6.7.

TABLE 6.7
Monthly Average Expenditure of Sampled Households (Lowest 40 per cent)

District	Average Household Expenditure (Rs./month)
Colombo	5,387.24
Matale	3,938.00
Matara	3,832.19
Anuradhapura	3,773.99

Source: Central Bank of Sri Lanka, Consumer Finances and Socio-Economic Survey 1996/97

The Laspeyres formula¹ is used for the construction of the indices. The monthly indices are constructed as a sum of weighted price relatives of items selected for the representative basket.

Approximately 150 consumer goods were chosen for the basket. Each district index contains nine sub indices representing the major categories of food; clothing; fuel and light; housing; liquor, tobacco, betel and arecanut; personal care and health; transport and communications; recreation and education and miscellaneous items. The weights attached to each category are shown in Table 6.8.

Price data are collected from selected centres established under the Country Wide Data Collection System

1 The formula is as follows :

$$I_t = \sum_{j=1}^n W_{jt} (P_{jt}/P_{jt0})$$

Where, W_{jt} = The share of total expenditure pertaining to item j in base period

P_{jt} = Price of jth item during the current period

P_{jt0} = Price of jth item during the base period

I_t = Index value for the current period

n = Number of items

TABLE 6.8
Weights of Sub Indices

Sub Index	District				Percentage
	Colombo	Matara	Matale	Anuradhapura	
Food	58.7	61.7	63.3	64.2	
Housing	13.2	6.1	6.4	5.1	
Fuel & Light	4.9	5.5	4.8	5.5	
Clothing & Footwear	6.2	9.2	6.0	6.7	
Liquor, Tobacco, Betel and Arecanut	4.4	4.2	5.5	6.6	
Personal Care and Health Services	3.8	5.3	6.8	6.4	
Education and Recreation	2.8	3.1	5.0	2.4	
Transport and Communication	3.7	2.5	2.1	2.7	
Miscellaneous	2.3	2.4	0.1	0.4	
Total	100.0	100.0	100.0	100.0	

Source: Central Bank of Sri Lanka, Consumer Finances and Socio-Economic Survey 1996/97

(CWDCS) of the Central Bank. The CWDCS has been in operation since 1978 and data are collected from about 90 data collection centres spread throughout the country, other than in the Northern and Eastern provinces. The teacher investigators of the CWDCS provide the information regularly under the supervision of the Central Bank. Prices of most food items are collected weekly, whereas prices of items with lower price volatility are collected monthly. For non-food items, prices are collected on a quarterly basis. The price collecting centres in the four districts are in Table 6.9.

TABLE 6.9
Price Collecting Centres

District	Centres
Colombo	Pettah, Kolonnawa, Nugegoda, Dehiwala, Moratuwa, Piliyandala, Maharagama, Homagama, Padukka, Hanwella, Avissawella
Matale	Matale, Dambulla, Laggala
Matara	Matara, Weligama, Devinuwara, Hakmana, Deniyaya, Akuressa
Anuradhapura	Anuradhapura, Nochichiyagama, Kahatagasdigiliya, Kekirawa, Medawachchiya, Padaviya

District-wise Inflation Rates

District wise index values for 1998 and 1999 and the annual average inflation rates for 1999 are given in Table 6.10.

In comparison with the CCPI computed by the Department of Census and Statistics, which showed an annual average inflation of 4.7 per cent for 1999, inflation rates derived from the District-wise Price Indices range from 3.6 per cent in Colombo to 5.4 per cent in Anuradhapura. Basically, these differences are a reflection of the diversity of consumption patterns and price changes among districts. The different inflation rates also point to different market conditions in each district. For instance, low inflation in

TABLE 6.10
District-wise Consumer Price Indices
(Oct. 1996 – Sep. 1997 = 100)

District	Indices		Percentage change 1999/98
	1998	1999	
Colombo	109.5	113.4	3.6
Matale	107.5	112.2	4.4
Anuradhapura	108.9	114.8	5.4
Matara	109.1	114.4	4.9

Source: Central Bank of Sri Lanka

Colombo can be attributed to greater competition with a well established wholesale market in Pettah which enjoys food supplies coming from many producing areas of the country. Under the prevailing network of distribution, most commodities were channeled to other areas through the Pettah market. (See Box 7 in CBSL Annual Report of 1996). However, this situation is fast changing with the growth of wholesale food distribution centres in places like Dambulla, Welimada, Ranna, Wellawaya and Denipitiya. The operation of these centres has led to improved efficiency in food distribution and a reduction in price fluctuations. Under the on-going scheme of forward sales contracts, which was

recently introduced by the Central Bank, the volatility in food prices is expected to decline further.

Regional Price Variations

As in previous years, price variations in regional centres from the prices in Colombo central market were relatively low for less perishable items such as rice, dried chillies, potatoes and onions. Conversely, substantial variations were observed in the prices of perishable items like vegetables and fish. Following the regional production patterns, samba rice prices were lower in Dambulla and Anuradhapura, while the price of kekulu rice was lower in Matara. Colombo had the highest prices for rice. Price movements of vegetables also were in conformity with production patterns, prices were lower in the production areas.

Forward Markets

The Central Bank has introduced an innovative scheme known as the 'Govi Sahanaya' to promote forward sales of agricultural commodities in order to reduce the sharp seasonal variability of prices and this scheme is expected to benefit consumers, farmers and the agro-processing industry. Deficiencies in the traditional agricultural commodity

TABLE 6.11
Matale District Consumer Price Index (Oct. 1996 - Sep. 1997 = 100)

Item	Weights	Average Index		Annual Average Percentage Change	Point to Point Percentage Change
		1998	1999(a)	1999(a)	Dec 1999 (a)
All Items	100.0	107.5	112.2	4.4	-1.0
Commodity Wise					
Food & Drink	63.3	108.4	111.2	2.6	-5.8
Housing	6.4	106.2	109.7	0.4	3.5
Fuel & Light	4.8	105.2	105.7	0.4	-
Clothing & Footware	6.0	103.3	109.1	5.7	4.4
Liquor, Tobacco and Betel & Arecanut	5.5	115.9	144.0	24.2	25.9
Personal Care and Health Services	6.8	104.8	115.7	10.4	14.7
Education & Recreation	5.0	101.5	101.7	0.1	0.2
Transport & Communication	2.1	100.2	102.0	1.8	-
Miscellaneous	0.1	111.5	122.3	9.7	8.7

(a) Provisional

Source: Central Bank of Sri Lanka

TABLE 6.12
Anuradhapura District Consumer Price Index (Oct. 1996 - Sep. 1997 = 100)

Item	Weights	Average Index		Annual Average Percentage Change	Point to Point Percentage Change
		1998	1999(a)	1999(a)	Dec 1999 (a)
All Items	100.0	108.9	114.8	5.4	0.2
Commodity Wise					
Food & Drink	64.2	109.0	114.5	5.0	-2.5
Housing	5.1	106.2	109.8	3.4	3.5
Fuel & Light	5.5	120.0	142.6	18.8	17.5
Clothing & Footware	6.7	101.2	103.3	2.1	2.9
Liquor, Tobacco and Betel & Arecanut	6.6	114.9	114.5	-0.3	-12.9
Personal Care and Health Services	6.4	107.7	114.4	6.2	4.4
Education & Recreation	2.4	104.1	105.3	1.2	-2.1
Transport & Communication	2.7	100.4	104.1	3.7	11.3
Miscellaneous	0.4	110.8	115.6	4.3	11.0

(a) Provisional

Source: Central Bank of Sri Lanka

TABLE 6.13
Matara District Consumer Price Index (Oct. 1996 - Sep. 1997 = 100)

Item	Weights	Average Index		Annual Average	Point to Point
		1998	1999(a)	Percentage Change	Percentage Change
				1999(a)	Dec:1999 (a)
All Items	100.0	109.1	114.4	4.9	-1.3
Commodity Wise					
Food & Drink	61.7	109.7	113.6	3.6	-4.8
Housing	6.1	106.3	109.6	3.2	3.8
Fuel & Light	5.5	114.2	114.2	-	-
Clothing & Footware	9.2	104.6	112.8	7.8	9.3
Liquor, Tobacco and Betel & Arecanut	4.2	118.9	144.6	21.6	11.2
Personal Care and Health Services	5.3	106.5	113.9	7.0	-0.8
Education & Recreation	3.1	102.4	108.4	5.8	1.6
Transport & Communication	2.5	100.4	105.2	4.8	11.5
Miscellaneous	2.4	111.9	121.7	8.8	-0.2

(a) Provisional

Source: Central Bank of Sri Lanka

TABLE 6.14
Average Retail Prices of Selected Food Items in Selected Markets in 1999 (a) (Rs./Kg.)

Item	Colombo	Kandy	Matara	Anuradhapura	Dambulla
Samba Rice	33.04	32.65	32.90	30.56	30.29
Kekulu Rice	29.94	27.74	25.89	26.58	26.14
Beans	45.24	37.90	34.75	36.70	35.58
Cabbages	34.84	28.36	28.60	28.71	28.92
Brinjals	41.68	28.53	23.98	21.61	25.52
Pumpkins	23.98	24.48	18.79	17.56	19.21
Red Onions	55.14	64.68	59.80	58.01	53.61
Big Onions	38.42	40.90	37.59	38.44	36.32
Potatoes	28.68	30.26	28.23	29.72	29.08
Dried Chillies	125.06	131.35	125.69	135.63	127.60
Kelawalla	143.79	178.56	154.38	165.46	138.28
Hurulla	70.54	102.13	84.33	93.19	92.37
Eggs (per each)	3.61	3.82	3.79	3.76	4.04
Coconut(per each)	13.19	14.86	12.81	10.83	11.31

(a) Provisional

Source: Central Bank of Sri Lanka

TABLE 6.15
Average Retail Prices of Selected Food Items - Difference from Colombo and Dambulla (a) Per cent

Item	Difference from Colombo				Difference from Dambulla		
	Kandy	Matara	Anuradhapura	Dambulla	Kandy	Matara	Anuradhapura
Samba Rice	-1.2	-0.4	-7.5	-8.3	7.8	8.6	0.9
Kekulu Rice	-7.3	-13.5	-11.2	-12.7	6.1	-1.0	1.7
Beans	16.2	-23.2	-18.9	-21.4	6.5	-2.3	3.1
Cabbages	-18.6	-17.9	-17.6	-17.0	-1.9	-1.1	-0.7
Brinjals	-31.5	-42.5	-48.2	-38.8	11.8	-6.	-15.3
Pumpkins	2.1	-21.6	-26.8	-19.9	27.4	-2.2	-8.6
Red Onions	17.3	8.5	5.2	-2.8	20.6	11.5	8.2
Big Onions	6.5	-2.2	0.1	-5.5	12.6	3.5	5.8
Potatoes	5.5	-1.6	3.6	1.4	4.1	-2.9	2.2
Dried Chillies	5.0	0.5	8.5	2.0	2.9	-1.5	6.3
Kelawalla	24.2	7.4	15.1	-3.8	29.1	11.6	19.7
Hurulla	44.8	19.5	32.1	30.9	10.6	-8.7	0.9
Eggs (each)	5.8	5.0	4.2	11.9	-5.4	-6.2	-6.9
Coconut(each)	12.7	-2.9	-17.9	-14.3	31.4	13.3	-4.2

(a) Provisional

Source: Central Bank of Sri Lanka

marketing system have been a major obstacle to price stability in food items, mainly vegetables and fruits. In forward sales, farmers can sell their produce in advance before the harvest to a buyer at a contracted price. The price is determined taking into consideration quality specifications, cost of production and price expectation of that commodity in the future delivery period. Accordingly, forward sales will provide farmers with a greater assurance of prices and a reliable marketing channel for their produce. This will help to minimise the agricultural produce going waste during the seasonal harvests for want of a ready market. As forward sales promote production in consonance with market demand, gluts and production shortfall situations would be reduced, resulting in greater price stability in agricultural commodities. Direct sales between the buyers and farmers or farmer organisations, thus reducing the large number of intermediaries in the traditional marketing chain, will also

help to bring down the retail prices, benefiting the consumer. The price guarantee and production orientation towards quality standards can also facilitate the export of local agricultural products to overseas markets in future. Another advantage of the forward sales scheme over the traditional marketing system is that the contract document, a legally acceptable sales agreement under the Sale of Goods Ordinance of 1896, could be used by both parties, the buyer and the seller, to raise credit from banks and other reputed financial institutions. Under this scheme, the major role of banks is as a facilitator, a fee based service function of bringing together buyers and sellers, which they could perform better than others owing to their branch network and customer information base. The 'Govi Sahanaya' scheme is in progress at present with the active participation of a considerable number of farmers, farmer organisations, traders and agro-processors engaging in forward contracts.

Chart 6.5
Monthly Prices of Selected Commodities

Chart 6.5.1
Samba Rice

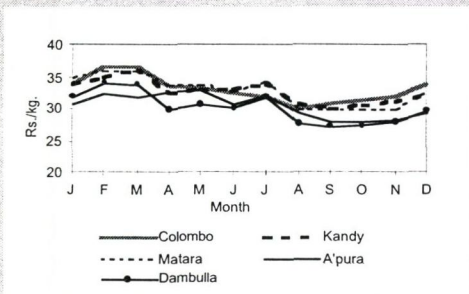


Chart 6.5.2
Beans

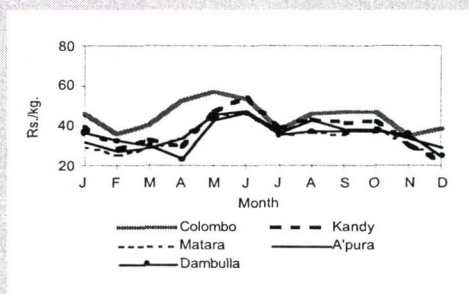


Chart 6.5.3
Red Onions

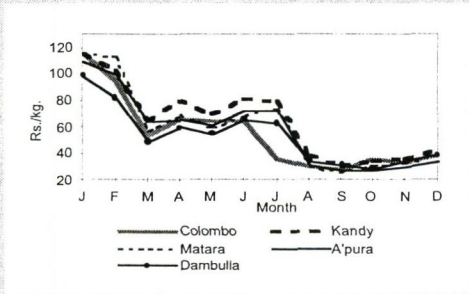
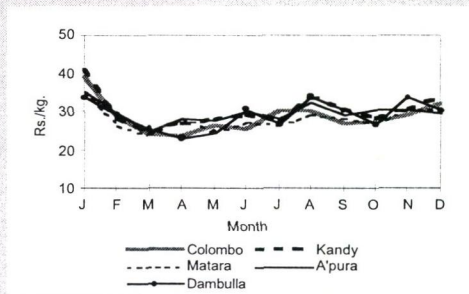


Chart 6.5.4
Potatoes



Dissemination of Market Information and Regional Markets

Price variations of most food items in 1999 were narrower than in the previous year. This development can be partly attributed to the effectiveness of the dissemination of information on prices and markets through the print and electronic media to the public. Wider usage of telecommunication facilities by the business community, along with the expansion of those facilities to rural areas also helped to reduce price variations. Further, the establishment of the Dambulla Dedicated Economic Centre was vital in this respect. After the commissioning of the Centre, better infrastructure facilities at the centre resulted in a large number of regional distributors shifting their operations from the Colombo market to Dambulla. This development was attested to by the increasing number of lorries arriving at the Dambulla centre and the gradual decline in the number of lorries arriving at the Colombo market. Traffic congestion in Colombo City and its suburbs, aggravated by the security situation also contributed to this change. Steps have been taken to promote regional trade centres similar to Dambulla in other producing areas (e.g. Keppetipola) to reduce regional price variations further through a smooth market mechanism.

6.2 Wages

There have been no changes in the nominal wages of the public sector employees since the implementation of the second phase of the B.C. Perera Salary Review Committee in 1998. Accordingly, the real wages in the public sector deteriorated in 1999 by 4.5 per cent. Nominal wages in the organised private sector were revised upward in 1999 but at different rates for different categories of employees. The overall increase for the entire sector was 2.5 per cent. As this rate of increase was lower than the annual average inflation rate of 4.7 per cent, real wages deteriorated during the year. While workers in the sub-categories of agriculture, industry and commerce experienced a general increase in their nominal wages followed by a decline in real wages, the services sector real wages increased by 5.7 per cent due to a nominal wage increase of 10.6 per cent. The wages in the unorganised sector increased in real terms due to nominal wages increasing at a higher rate than annual inflation. These increases were observed in the areas of paddy, coconut and rubber cultivation and building construction.

Public Sector

Public sector employees include central government employees, non-executive grades, minor employees and government school teachers. These categories have not had any increase in their nominal wages since the implementation of the second phase of the Salary Review Committee in 1998.

Organised Private Sector

Wage movements in the organised private sector are monitored by the Minimum Wage Rate Indices in Wages Boards Trades. This sector includes employees in the wages boards, under different economic activities namely, agriculture, industry and commerce and services. Nominal wages in these categories were reviewed upward at different rates in 1999. The rates of increase were agriculture - 1.7 per cent, industry and commerce - 2.7 per cent and services - 10.6 per cent. The composite wage rate index for the overall sector increased by 2.5 per cent in nominal terms. Since the annual average inflation rate for the year was 4.7 per cent, the real wage rate index (the nominal wage rate index deflated by the Colombo Consumers' Price Index) declined by 2.1 per cent. All categories in this sector, except the service category, experienced this general feature of a nominal increase followed by a deterioration of the real value. In the service category, real wages increased by 5.7 per cent following a nominal increase of 10.6 per cent.

Informal Sector

The Country-Wide Data Collection System (CWDCS) of the Central Bank provides information on daily wages in the informal sector of the economy. According to this information, the daily wages in informal sector economic activities increased at different rates during the year with most categories registering increases in real wages. In the coconut cultivation sector, nominal wages increased by around 6 - 20 per cent. The other sectors in which wages rose were paddy cultivation (6 - 15 per cent), rubber cultivation (1 - 17 per cent), tea cultivation (2 - 11 per cent) and building construction (5 - 12 per cent). All types of employment categories, except building bunds and tapping in the rubber sector and preparing land, building bunds, digging pitches, fixing pegs, and cleaning in the tea sector registered increases in real wages.

In the paddy sector, the highest nominal wage increase of 15 per cent was observed in spraying chemicals. The activities of applying manure, weeding, threshing and winnowing had a nominal wage increase of more than 10 per cent. In the coconut cultivation sector, plucking coconut by climbing trees registered the highest nominal wage increase of 20 per cent. The wage increase in plucking by stick was around 18 per cent in nominal terms. Collecting nuts had a nominal increase of around 10 per cent. All other types of activities had less than 10 per cent increase in nominal wages. In the rubber smallholdings sector, the activities of spraying, cleaning, digging and closing pits, planting, and pruning registered wage increases of more than 10 per cent. In the rubber sector, wages for tapping did not move with wages for other activities. For male workers, the nominal increase was only 0.5 per cent. Low world market prices for rubber and abandonment of tapping, especially in the small-scale holdings, were the main reasons for this

TABLE 6.16
Wage Rate Index Numbers
(December 1978=100)

	Nominal		Real		Percentage Change In 1999	
	1998	1999(a)	1998	1999(a)	Nominal (a)	Real (a)
1. Government Employees						
Central Government Employees	1,001.4	1,001.4	104.9	100.2	-	-4.5
Non-Executives	959.6	959.6	100.5	96.0	-	-4.5
Minor Employees	1,029.1	1,029.1	107.8	103.0	-	-4.5
Government School Teachers	805.5	805.5	84.4	80.6	-	-4.5
2. Workers in Wages Boards Trades						
All Wages Boards Trades	953.3	977.6	99.9	97.8	2.5	-2.1
Workers in Agriculture	1,097.7	1,116.0	115.0	111.7	1.7	-2.9
Workers in Industry & Commerce	807.7	829.2	84.6	83.0	2.7	-1.9
Workers in Services	506.2	559.7	53.0	56.0	10.6	5.7

(a) Provisional

Sources: Department of Labour
Central Bank of Sri Lanka

development. In the coconut cultivation sector, plucking had the highest increase of 11 per cent. Construction sector wages increased by around 5 – 12 per cent. Wages of master carpenters and master masons in small-scale construction activities increased on average by 10.3 per cent and 5.4 per cent, respectively. Further, wages for unskilled helpers in building construction increased more than 9 per cent.

Wage developments, together with labour market reforms in 1999, imply that the continuous reduction in consumer price inflation since mid-1998 has temporarily contained labour union pressure for wage increases. It is encouraging that food price inflation, which normally affects the low income groups more adversely, has recently been

contained, both due to improved domestic supply and distribution systems and lower international prices of imported food commodities, as well as improved macro-economic policies. However, the sustainability of price stability has been challenged by developments beyond Sri Lanka's control, e.g. the recent sharp increase in petroleum prices and rising interest rates for international loans. A greater awareness of this reality by the public is necessary so that the cost of adjustment to these adverse developments in the external environment should not have to take place with another wage price spiral. The government's aim, as has been made explicit in the Budget 2000, is to keep inflation at around 7 per cent in 2000.