

6. PRICES AND WAGES

6.1 Prices

The year 2000 was a year of concern with respect to price movements, as it marked a turning point in the falling trend of price inflation observed since the latter part of 1998. The favourable environment that prevailed throughout 1999 and continued until the early part of 2000 began to change, with increasing pressure on domestic prices, especially during the second half of the year, mainly due to inimical external factors such as sharply rising oil prices. Although most domestic factors were favourable due to increased production of many varieties of food items, improved information and distribution systems relating to consumer items and prudent monetary management, they could not totally arrest the inflationary pressures arising from the external factors. Domestically too, there were certain factors such as wage increases that exerted pressure on prices.

Rising oil prices were the most significant external factor that affected domestic prices, especially during the second half of the year. The price of crude oil in the world market reached its highest level since the Gulf war in 1990. The world market prices of major food imports too turned unfavourable. Prices of rice, wheat grain and sugar, which fell during 1999 and helped dampen the pressure of the depreciation of the rupee on domestic prices, started to rise slowly during the first half of 2000 and then accelerated towards the end of the year. Meanwhile, the rupee depreciated against the US dollar at a higher rate, particularly during the second half of 2000, resulting in an annual depreciation of 10 per cent compared with the annual depreciation of 6 per cent in 1999, due to increased pressure arising from the larger deficit in the balance of payments.

TABLE 6.1
World Prices of Major Imports (US\$)
1998-2000

Item	Unit	1998	1999	2000	% Change	
					1999	2000
Rice	MT	251.2	215.8	262.3	-14	22
Sugar	MT	290.8	221.6	251.6	-24	14
Wheat grain	MT	144.4	129.1	137.8	-11	7
Fertiliser	MT	140.0	123.1	142.6	-12	16
Crude oil	BBL	13.7	19.1	28.7	40	51

Source: Sri Lanka Customs

All these developments in the external sector had a direct as well as an indirect impact on raising domestic prices, especially during the second half of the year. Their pressure on public sector borrowing also started to mount, as the administratively determined prices of wheat flour,

kerosene and diesel were being maintained at subsidised levels. This situation forced several rounds of upward revisions of these administered prices during the year. Upward revisions of Liquefied Petroleum Gas (LPG) prices too added another dimension to these developments. Rising prices, especially of diesel, LPG and furnace oil, fuelled waves of subsequent price revisions in transport services, electricity tariffs and many non food and food items, including prepared food. Accordingly, external factors had multidimensional effects on raising domestic prices.

Most domestic factors contributed favourably to maintain price stability. Prices of paddy, as well as rice, fell in 2000 partly as a result of a bumper harvest in 1999. There was also an increase in imports of rice in response to a duty reduction from 35 per cent to 10 per cent towards the latter part of 1999. Despite a drop in production, prices of big onions and dried chillies fell due to higher imports.

Prices of many other consumer items such as coconuts and some varieties of vegetables also decreased as production expanded due to an increase in the area cultivated and high yields resulting from improved production methods with hybrid varieties and other inputs. Favourable weather conditions in production areas too helped this expansion. The continuation of the dissemination of price information relating to major wholesale and retail markets through print and electronic media helped improve the information and distribution channels, especially of agricultural produce. The availability of timely information encouraged retail traders in agricultural produce to get their supplies directly from producing areas and thereby to avoid several stages of middlemen transactions. These developments have led to improved producer prices and more stable retail prices. However, producers tended to complain of sharp declines in prices during seasonal gluts in supply. As government initiated purchases were not fully effective in ensuring remunerative producer prices, forward sales contracts were introduced on an experimental basis in 1999 and their growing popularity seems to offer promising prospects of reducing excessive price fluctuations of certain agriculture commodities. These factors contributed to dampen the price increases of many food items. A tight monetary policy stance, which contained monetary expansion at 13 per cent in 2000 compared to its growth of 14 per cent in 1999, also contributed to minimise pressure stemming from domestic demand on prices.

There were several domestic factors, however, that contributed to raise domestic prices, independently of the external factors. Production of fish decelerated due to bad weather conditions. Rising demand for varieties of large fish

from external markets such as Japan reduced the supply of such varieties to the domestic market to a certain extent. Fish exports to Japan rose almost three times in 2000. The combined effect of these factors kept prices of most varieties of fish higher in 2000 than in 1999.

The combined effects of the changes in external factors, of subsequent adjustments in the domestic prices of major consumer items and of the domestic factors, coupled with macro economic policy measures, led to a change in the falling trend of inflation after May 2000. The inflation rate, as measured by the Colombo Consumers' Price Index (CCPI), the official measure of consumer price inflation, started rising in June. The inflation rate in June was 3.7 per cent, following the lowest rate of 3.4 per cent in May. Rising inflation prevailed throughout the remainder of the year. The annual average inflation rate registered by the CCPI for the entire year was 6.2 per cent, which compares with 4.7 per cent in 1999. The main sub categories that contributed to this higher inflation in 2000 were food, fuel and light and miscellaneous items. The respective shares of each sub sector's contribution to the overall price change during the year were 52 per cent, 21 per cent and 26 per cent, respectively. The revision of energy prices during the year in several rounds raised the contribution of the fuel and light category from only 2 per cent in 1999 to as high as 21 per cent in 2000.

The alternative measures of consumer price inflation, the Colombo District Consumer Price Index (CDCPI), computed by the Central Bank, and the Greater Colombo Consumers' Price Index (GCPI) computed by the Department of Census and Statistics (DCS), both of which have a wider geographical coverage than the CCPI, marked somewhat different developments in the overall price movements than what was registered by the CCPI. This reflected the differences in the relative weights of major consumer items as well as in price movements in the markets represented in these indices. In particular, the average increases in food prices in the Colombo Municipality (CCPI) were higher than the corresponding price increases in the Colombo District (GCPI, CDCPI). The annual average inflation rate of the CDCPI was 3.6 per cent for 2000, which was the same rate as in 1999. The inflation rate reflected by the GCPI was somewhat lower at 3.2 per cent for 2000 compared to the corresponding rate of 3.8 per cent in 1999. However, all three indices registered higher increases in the sub categories of fuel and light. The annual average increase of this category for 2000 in the CCPI was 19 per cent compared to 2 per cent in 1999; in the CDCPI, the corresponding increase was 16 per cent in 2000 compared to just 0.6 per cent in 1999; in the GCPI, it was 15 per cent in 2000 compared to 1.3 per cent in 1999. The GNP deflator which covers all economic activities and hence, has the widest coverage among all alternative measures of price changes, registered an inflation

rate of 6.7 per cent for 2000 compared to 4.4 per cent in 1999.

TABLE 6.2
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	4.4
2000	6.2	3.2	3.6	1.7 (a)	6.7

(a) Provisional

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

The Wholesale Price Index (WPI), which measures the price movements at the primary market level, registered an increase of 1.7 per cent for 2000 in its twelve month moving average against a decline of 0.3 per cent in 1999, mainly reflecting price movements of imported intermediate goods.

Revisions of Administered Prices

The year 2000 experienced several rounds of upward revisions of certain prices which are either directly determined or indirectly influenced by government policy. Hence, though not accurately, they are referred to as "administered prices". These increases reflected the adjustment of the domestic economy to rises in world prices and the higher depreciation of the Rupee. These increases in turn fuelled a series of subsequent price increases in the open market for other goods and services. The commodities were diesel, furnace oil, kerosene, LPG, electricity, bus fares, wheat flour, bread, cigarettes and arrack. Diesel prices were revised four times during the year resulting in a cumulative increase of 86 per cent. The price increase of kerosene was 77 per cent after three rounds of increases. The prices of all categories of furnace oil increased by around 100 per cent in three rounds. Prices of wheat flour and bread were reduced in July by 17 per cent and 6 per cent, respectively, but were raised in November by 13 per cent each due to rising world prices of wheat grain. The price of LPG was raised by 52 per cent in three rounds. The industrial gas price was revised once by 15 per cent.

Revisions to the electricity tariff and bus fares were prompted by the revisions of furnace oil and diesel prices. The average increases of electricity tariff and bus fares were 6 per cent and 15 per cent, respectively. Price increases of arrack and cigarettes were 8 per cent and 17 per cent, respectively.

Inflation, excluding items with administered prices was

2000 were relatively higher than in 1999, especially during the second half of the year. The highest point to point change in 1999 was 7.7 per cent in April. In 2000, the highest change was 10.8 per cent in December, with the second highest at 10.1 per cent in July. These spikes in 2000 were associated with administered price revisions in that month and in the previous month. The food sub index,

TABLE 6.3
Administered Price Revisions in 1999 and 2000

Item	Unit	Price before Change	Price after Change	Absolute Change	% Change	Date of Revision
Price revisions in 1999						
Bread	450 gm. (Loaf)	8.25	8.00	-0.25	-3.0	18/10/99
Cigarettes (Gold Leaf)	per cigarette	5.50	6.00	0.50	9.1	10/11/99
L.P. gas	13.0 kg.	310.00	320.00	10.00	3.2	15/06/99
L.P. gas	13.0 kg.	320.00	335.00	15.00	4.7	30/12/99
Wheat flour	1 kg.	18.95	17.95	-1.00	-5.3	18/10/99
Price revisions in 2000						
Bread	450 gm. (Loaf)	8.00	7.50	-0.50	-6.3	01/07/00
Bread	450 gm. (Loaf)	7.50	8.50	1.00	13.3	28/11/00
Bus fare (CTB)	per section(a)	2.00	3.00	1.00	50.0	17/06/00
Cigarettes (Gold Leaf)	per cigarette	6.00	6.50	0.50	8.3	11/05/00
Cigarettes (Gold Leaf)	per cigarette	6.50	7.00	0.50	7.7	17/11/00
Coconut arrack	750 ml.	250.00	260.00	10.00	4.0	11/05/00
Coconut arrack	750ml.	260.00	270.00	10.00	3.9	19/10/00
Diesel	1 ltr.	13.20	16.20	3.00	22.7	07/02/00
Diesel	1 ltr.	16.20	19.50	3.30	20.4	06/12/00
Diesel	1 ltr.	19.50	21.50	2.00	10.3	16/11/00
Diesel	1 ltr.	21.50	24.50	3.00	14.0	28/12/00
Electricity (domestic)	(units 0 - 30(a))	2.20	2.40	0.20	9.1	01/06/00
Furnace oil 500 seconds	1 ltr.	7.80	10.80	3.00	38.5	12/06/00
Furnace oil 500 seconds	1 ltr.	10.80	14.40	3.60	33.3	17/11/00
Furnace oil 500 seconds	1 ltr.	14.40	15.90	1.50	10.4	27/12/00
Kerosene oil	1 ltr.	10.40	15.40	5.00	48.1	07/02/00
Kerosene oil	1 ltr.	15.40	17.40	2.00	13.0	16/11/00
Kerosene oil	1 ltr.	17.40	18.40	1.00	5.8	28/12/00
L.P. gas (domestic)	12.5 kg.(b)	335.00	365.00	30.00	9.0	07/02/00
L.P. gas (domestic)	12.5 kg.	365.00	470.00	105.00	28.8	01/06/00
L.P. gas (domestic)	12.5 kg.	470.00	509.00	39.00	8.3	28/12/00
L.P. gas (economical)	37.5 kg.	1603.13	1850.87	247.74	15.5	15/11/00
Wheat flour	1 kg.	17.95	14.95	-3.00	-16.7	01/07/00
Wheat flour	1 kg.	14.95	16.95	2.00	13.4	28/11/00

(a) Lowest brackets

(b) Weight of the L.P gas cylinder (domestic) was reduced by 0.5 kg. with effect from 27.01.2000.

Source: Central Bank of Sri Lanka

5.7 per cent in 2000, in comparison to the corresponding rate of 4.9 per cent in 1999. The administered price increases contributed 1.6 percentage points of the overall inflation of 6.2 per cent in 2000, whereas the contribution was only 0.7 percentage points out of 4.7 per cent in 1999. Thereby, this reflected the slower reaction of public institutions to cost increases at the early stages.

Colombo Consumers' Price Index (CCPI)

The CCPI recorded an annual average increase of 6.2 per cent in 2000, somewhat higher than 4.7 per cent recorded in 1999. The overall index showed a significantly different pattern in its point to point change in 2000 compared to 1999. The point to point change measures the change in the index in a particular month compared to the corresponding month in the previous year. Its increases in

which has the highest weight of 62 per cent in the overall consumer basket, registered an annual average increase of 5 per cent in 2000. Although the prices of certain food items increased sharply, they were partially offset by the decreases in the average prices of domestically produced food items. The contribution of the food category to the overall price increase was lower than in 1999, as the fuel and light sub index had a significantly larger contribution of 21 per cent in 2000 compared to only 2 per cent in 1999. The annual average increase of the fuel and light sub index was as high as 19 per cent compared to an increase of only 2 per cent in the previous year. Considering that the weight of the fuel and light category in the overall basket is only 4 per cent, its contribution of 21 per cent to the overall price change highlights the significant price increases within this category during the year. The

miscellaneous sub index, which includes items such as transport, cigarettes and liquor that were subject to price revisions during the reference period, contributed to 26 per cent of the overall price increase. The contribution of the clothing sub index, which has a weight of 9 per cent, was marginal at 1 per cent. Stiff competition in the clothing trade in a more liberalised environment has kept price increases of clothing to a very low level in the past as well.

increases of 15 and 20 per cent, respectively, while prices in the housing sub category remained unchanged.

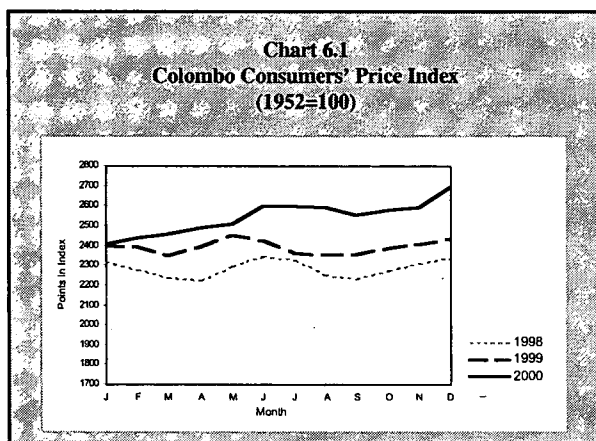
Colombo District Consumer Price Index (CDCPI)

The CDCPI recorded an annual average increase of 3.6 per cent in 2000, the same rate registered for 1999. The moderate increase of the overall index during the year was

TABLE 6.4
Colombo Consumers' Price Index (1952=100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change		Contribution to Increase in (%)	
		1999	2000	1999	2000	Dec-99	Dec-00	1999	2000
All Items	100.0	2,392.1	2,539.8	4.7	6.2	4.0	10.8	100.0	100.0
Commodity wise									
Food	61.9	2,695.4	2,815.8	4.0	4.5	3.5	9.7	61.9	52.4
Clothing	9.4	863.3	872.9	1.3	1.1	0.6	2.7	1.0	0.6
Fuel and light	4.3	3,929.7	4,660.9	1.5	18.6	1.6	27.4	2.3	21.0
Rent	5.7	109.8	109.8	-	-	-	-	-	-
Miscellaneous	18.7	2,558.1	2,802.4	10.3	9.6	7.8	10.8	34.8	26.0

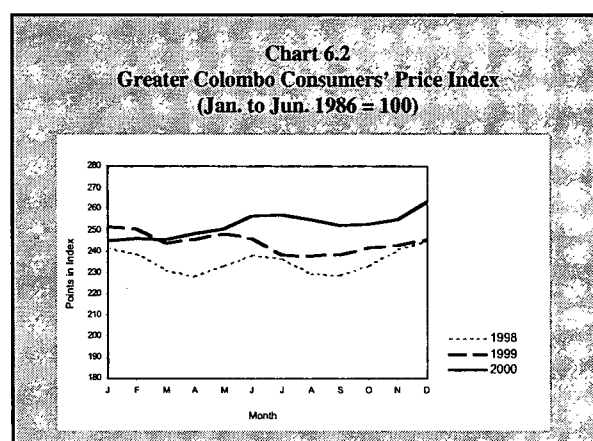
Source: Department of Census & Statistics.



Greater Colombo Consumers' Price Index (GCPI)

The GCPI, which has a wider geographical coverage than the CCPI, registered an annual average inflation rate of 3.2 per cent in 2000, which is lower, compared to 4 per cent in 1999. The prices in the food and drink category increased at a lower rate of 1 per cent compared to 3 per cent in 1999. This sub index contributed significantly to the slowing down of the overall index in 2000.

Prices of the sub category for liquor, tobacco, betel and arecanuts increased at a lower rate of 13 per cent in 2000 compared to 18 per cent in the previous year. The sub categories of clothing and footwear and personal care decelerated during the year. However, the sub categories of fuel and light, and transport and communication registered

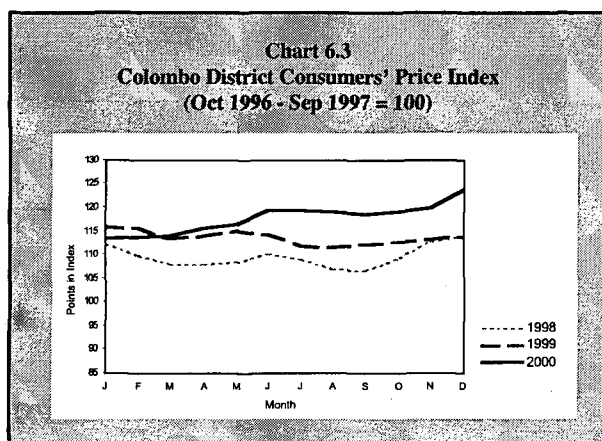


attributed mainly to lower price increases recorded in the sub-index of food, which has the highest weight of 59 per cent in the overall index. The annual average increase in the food sub index was 2 per cent, slightly lower than in the previous year. The contribution to the increase in the overall index from the food category was 28 per cent in 2000 compared to 40 per cent in 1999. The other sub-indices where price increases slowed down in 2000 were housing (from 4 per cent to 3 per cent) and liquor, tobacco, betel and arecanuts (from 22 per cent to 12 per cent). Prices in the miscellaneous category decreased by 1 per cent compared to the increase of 7 per cent in 1999, mainly due to price decreases of soap and coconut oil. In contrast to the above decelerations, the sub indices of fuel and light and transport registered accelerated price increases. The fuel and light sub index, with a share of around 5 per cent,

TABLE 6.5
Greater Colombo Consumers' Price Index (January to June 1989=100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1999	2000	1999	2000	Dec. 1999	Dec. 2000
All items	100.0	244.1	252.0	3.8	3.2	0.4	7.3
Commodity wise							
Food and drink	69.3	257.1	260.8	2.8	1.4	-1.1	6.2
Liquor, tobacco and betel and arecanut	3.8	350.4	396.1	18.4	13.0	11.3	13.5
Housing	8.9	110.1	110.2	0.1	0.1	0.1	0.2
Fuel and light	5.4	244.7	280.4	1.3	14.6	1.5	21.4
Clothing and footwear	2.8	245.9	250.8	6.3	2.0	1.1	4.0
Personal care and health services, household goods and services	4.9	258.2	266.7	6.4	3.3	4.0	3.7
Transport and communication	2.8	204.4	246.1	4.3	20.4	11.1	22.8
Miscellaneous	2.1	203.0	200.6	10.6	-1.2	2.0	-1.6

Source: Department of Census & Statistics.



Wholesale Price Index (WPI)

The WPI measures the movements of prices in the primary market. In 2000, the WPI recorded an annual average increase of 1.7 per cent when compared with the marginal drop of 0.3 per cent in 1999.

Price increases of imports such as crude oil, fertiliser, wheat grain, steel and pharmaceutical products were the main contributory factors to the overall increase in the index.

Within the overall index, most of the sub indices registered significant price increases during the period, while some sub indices indicated marginal decreases. The

TABLE 6.6
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	2000	1999	2000	Dec. 1999	2000	1999	2000
All items	100.0	113.4	117.5	3.6	3.6	-0.1	8.5	100.0	100.0
Commodity wise									
Food and drink	58.7	113.8	115.7	2.4	1.7	-3.1	8.6	39.7	27.8
Housing	13.2	109.5	112.4	4.3	2.6	3.8	2.3	0.9	9.3
Fuel and light	4.9	119.4	138.3	0.6	15.8	0.3	23.8	15.2	23.0
Clothing and footwear	6.2	106.2	108.0	1.9	1.6	2.3	3.4	3.2	2.6
Liquor, tobacco and betel and arecanut	4.4	135.4	152.3	22.0	12.4	14.0	15.3	27.4	18.5
Personal care and health services	3.8	113.5	118.2	4.1	4.1	-0.4	10.3	4.3	4.4
Education and recreation	2.8	104.2	106.5	1.9	2.2	-	5.2	1.4	1.5
Transport	3.7	103.9	118.8	3.6	14.3	10.8	13.3	3.4	13.5
Miscellaneous	2.3	119.3	118.2	7.1	-0.9	1.2	-0.6	4.5	-0.6

Source: Central Bank of Sri Lanka

increased by 16 per cent, compared to 1 per cent in 1999. The transport sub-index rose sharply by 14 per cent in 2000 compared to 4 per cent in 1999.

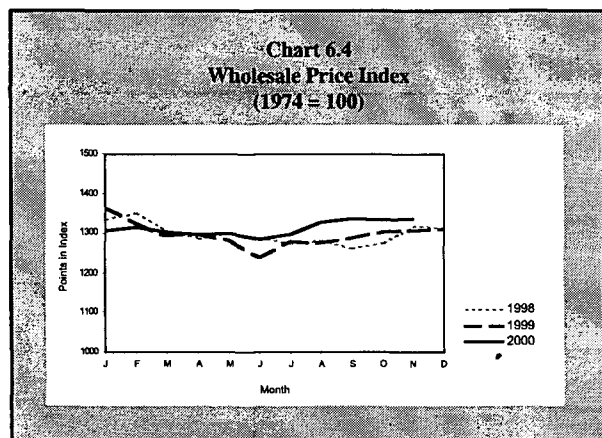
sub indices with significant increases were petroleum by 22 per cent, paper and paper products by 12 per cent, miscellaneous by 8 per cent, alcoholic drinks by 6 per cent and fuel and light by 6 per cent. The sub indices of

TABLE 6.7
Wholesale Price Index (1974 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		1999	2000(a)	1999	2000(a)	Dec. 1999	Dec. 2000(a)
All items	100.0	1,295.3	1,317.2	-0.3	1.7	-0.5	4.8
Commodity wise							
Food	67.8	1,212.4	1,187.1	-0.9	-2.1	-1.7	1.9
Alcoholic drinks	2.9	1,649.3	1,750.1	18.0	6.1	0.2	9.7
Textile and footwear	4.0	634.9	632.9	0.1	-0.3	-	-0.1
Paper products	1.4	934.3	1,050.0	2.1	12.4	1.8	18.8
Chemicals and chemical products	5.2	807.9	828.2	4.7	2.5	1.9	3.3
Petroleum products	6.4	1,528.2	1,859.6	-	21.7	-	35.5
Non metallic products	1.8	2,745.1	2,762.4	3.4	0.6	-3.3	-4.4
Metal products	0.9	749.1	763.3	-8.2	1.9	-9.0	4.8
Transport equipment	0.8	886.2	916.8	-5.1	3.5	-0.9	7.3
Electrical appliances and supplies	1.0	842.5	848.6	0.5	0.7	-2.3	10.4
Machinery	1.3	691.4	679.5	6.2	-1.7	0.2	3.4
Fuel and light	1.8	2,693.9	2,853.4	-4.6	5.9	6.2	0.9
Miscellaneous	4.8	2,500.7	2,687.3	-3.4	7.5	5.2	2.6
Sectorwise no. I							
Domestic group	50.3	1,143.7	1,175.9	2.9	2.8	-0.2	9.7
Import group	27.2	933.1	1,044.7	-0.1	12.0	-1.5	20.3
Export group	22.5	2,071.4	1,961.3	-4.0	-5.3	-0.3	-9.4
Sectorwise no. II							
Consumer goods	75.3	1,279.6	1,265.9	-0.1	-1.1	-1.1	2.5
Intermediate goods	20.5	1,309.4	1,464.5	-1.5	11.8	2.4	14.5
Investment goods	4.2	1,509.0	1,517.9	2.4	0.6	-3.6	-2.5

(a) Provisional

Source: Central Bank of Sri Lanka



transport equipment, chemicals and metal registered lower increases of 4 per cent, 3 per cent and 2 per cent, respectively. Meanwhile, the sub indices for food, machinery and textiles and foot wear registered decreases of 2 per cent, 1.7 per cent and 0.3 per cent, respectively.

According to the sectoral classification, prices in the domestic group rose at about the same rate as in the previous year. The import group prices rose significantly by 12 per cent when compared to a marginal drop of 0.1 per cent in last year. In contrast, the export category registered a price decrease of 5 per cent in 2000, reflecting mainly the decline in coconut prices, following a decrease of 4 per cent in 1999 mainly due to tea prices.

In the end use classification, prices of investment goods registered a marginal increase of 0.6 per cent in 2000. Intermediate goods registered a price increase of 12 per cent, while prices of consumer goods declined by 1 per cent, consistent with the decline in the food sub-index.

District-wise Inflation Rates

Since 1999, the Central Bank has attempted to measure regional changes in consumer prices using three regional price indices, namely, the Consumer Prices Indices of the Anuradhapura, Matale and Matara Districts. These indices are still at an experimental stage, and their movements need to be interpreted with caution. All these indices registered annual inflation rates lower than those indicated by the Colombo based indices. With improvements in information and distribution channels, a trend has emerged where retailers obtain supplies directly from producers, especially of vegetable products, thereby avoiding the middlemen and minimising transport and handling costs. This has resulted in lower prices in certain marketing centres close to producing areas than in Colombo for some vegetable items. This could be one reason for the regional price indices to record lower rates of inflation, as they have higher weights for food than the Colombo based indices. However, these indices need further improvement in the area of price collection, for conclusive interpretations.

TABLE 6.8
District-Wise Consumer Price Indices
(Oct.1996-Sep. 1997=100)

District	Indices			Percentage change	
	1998	1999	2000	1999	2000
Colombo	109.5	113.4	117.5	3.6	3.6
Matale	107.5	112.2	113.0	4.4	0.7
Anuradhapura	108.9	114.8	115.4	5.4	0.5
Matara	109.1	114.4	114.6	4.9	0.2

Source: Central Bank of Sri Lanka

Regional Price Variations

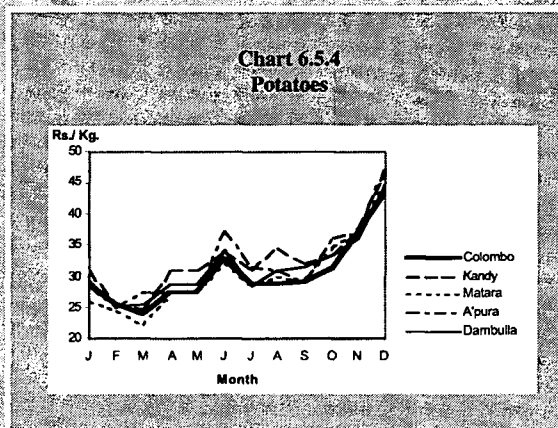
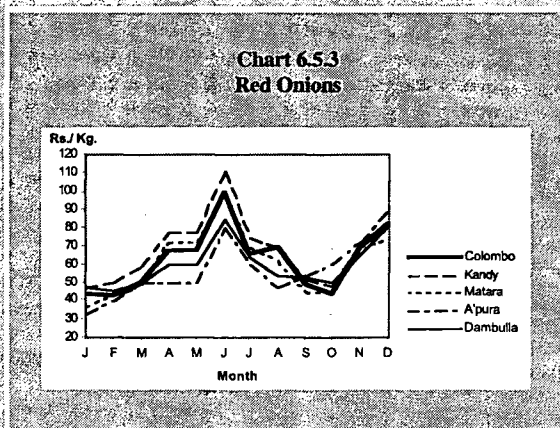
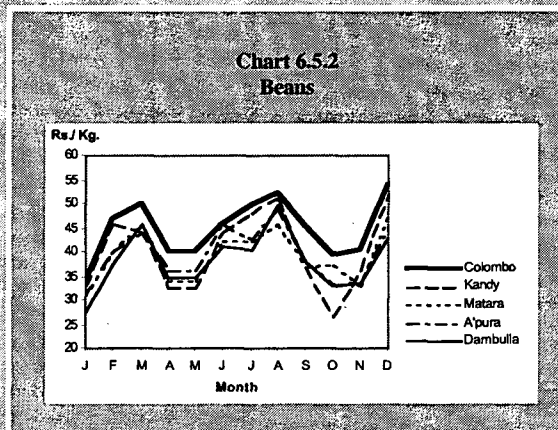
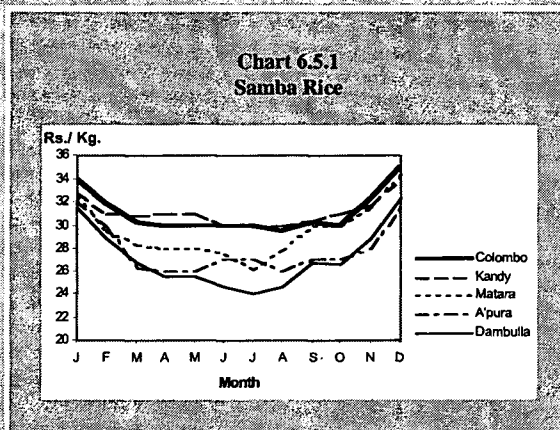
Price variations among different regional centres followed the general pattern of the past. Improvements in the distribution channels for agricultural produce with the developments in information and transport facilities helped reduce price variations to a certain extent. However,

regional markets continued to show price differences that reflected differences in supply and quality of produce between producing and non-producing areas. This suggests that further improvements in packaging, transport and storage facilities would be required to reduce these variations further. The proposed regional trade centres similar to the Dambulla Economic Centre would address this issue.

6.2 Wages

Employment, and consequently wages, in the Sri Lankan economy fall into two main categories, namely, the public sector and the private sector. The private sector is further disaggregated into two sub sectors, namely, the formal and the informal sectors. The public sector comprises employees in the central government, local government, provincial councils and semi-government institutions. The formal

Chart 6.5
Monthly Prices of Selected Commodities



private sector comprises employees who enjoy the benefits of employees' provident funds, while the informal private sector employees comprise the rest of the private sector who do not have such retirement benefits, except on a voluntary basis and even now on a limited scale.

TABLE 6.9
Retail Sales Prices of Selected Food Items
(All Island)

Item	Unit	1999 (Rs)	2000(a) (Rs)	% Change 2000(a)
Rice (ordinary par boiled)	kg	26.38	23.50	-10.9
Bread	450 g. loaf	8.28	8.15	-1.6
Eggs (ordinary)	each	4.24	4.51	6.4
Coconut (medium size)	nut	10.02	7.48	-25.3
Vegetables				
Bitter gourd	kg	32.85	34.92	6.3
Cabbages	"	28.85	28.97	0.4
Carrots	"	39.19	41.84	6.8
Green beans	"	36.83	41.16	11.8
Leeks	"	34.37	35.56	3.5
Potatoes	"	32.46	39.82	22.7
Red onions (medium)	"	54.25	58.66	8.1
Dried chillies (Gr. I)	"	132.08	121.59	-7.9
Sea fish				
Kelawalla	kg	147.73	173.69	17.6
Mullet	"	124.62	138.93	11.5
Hurulla	"	85.20	92.26	8.3
Salaya	"	58.89	56.35	-4.3

(a) Provisional

Source: Central Bank of Sri Lanka

TABLE 6.10
Average Retail Prices of Selected Food Items in
Selected Markets in 2000(a)

(Rs./kg.)

Item	Colombo	Kandy	Matara	Anuradhapura	Dambulla
Samba Rice	31.09	31.05	29.48	27.84	27.15
Kekulu Rice	27.87	25.25	22.33	24.01	24.41
Beans	44.88	40.59	39.31	39.57	38.23
Cabbages	30.45	25.08	25.71	28.41	27.21
Brinjals	35.46	26.67	21.11	20.90	24.01
Pumpkins	24.20	25.52	20.48	18.64	17.53
Red onions	64.73	70.50	61.73	59.48	61.47
Big onions	31.87	34.58	31.19	33.20	32.30
Potatoes(L)	30.71	32.96	30.72	32.48	31.72
Dried chillies	111.78	122.86	119.25	125.78	118.04
Kelawalla	186.26	211.86	195.33	211.32	145.51
Hurulla	76.58	114.29	81.33	101.83	90.42
Eggs(each)	3.81	4.07	4.52	4.14	4.26
Coconut (each)	10.67	10.15	8.54	8.78	8.99

(a) Provisional

Source: Central Bank of Sri Lanka

Public sector employees enjoyed an increase in their nominal wages during 2000. The rate of increase, however, differed across different employee categories, ranging from 7.4 per cent to 9.4 per cent. Given the consumer price inflation of 6.2 per cent, it appears that real wages in this sector rose by 1 to 3 per cent. Nominal minimum wages in the formal private sector too were revised upward in 2000 at different rates for different categories. As measured by the movement in minimum wages, an overall increase

of 2 per cent was recorded for the entire sector, which, however, is lower than the annual average inflation. A general increase in nominal wages was experienced by the workers in the sub categories of agriculture and industry and commerce. However, the Service sector minimum wages remained unchanged during the year. In contrast, in the informal private sector, wages increased in real terms due to the nominal wages increasing at higher rates than inflation. These increases were observed in all areas, namely, paddy and coconut cultivation, rubber tapping, tea plucking and building construction for which data are available.

Public Sector

The public sector wage movements are monitored by the movements of the wage rate indices constructed for three categories of central government employees including school teachers. An additional allowance was granted to public sector employees from the annual budget allocation for 2000 until a salary revision took place. This effected a real wage increase of 1.9 per cent to the central government employees (excluding government school teachers for whom the real wage increase was 1 per cent) during the year. An interim allowance of Rs. 600 was granted to public officers drawing a monthly salary of Rs. 12,000 and below with effect from 01 August 2000. A non-pensionable interim allowance of 10 per cent of the salary was granted to all public officers, subject to a minimum of Rs. 1,000 per month, with effect from 01 October 2000. The payment of Rs. 600 mentioned above was incorporated in the allowance of 10 per cent.

Formal Private Sector

Wage movements in the formal private sector are monitored by the Minimum Wage Rate Indices in trades coming under Wages Boards. Wages Boards exist for different economic activities, such as agriculture, industry and commerce and services, which comprise this sector. There are 34 active Wages Boards at present. The nominal minimum wages pertaining to the agriculture and industry and commerce categories were revised upwards at different rates in 2000. The corresponding rates of increase of the indices were 2.4 per cent and 3.4 per cent, respectively. However, the service sector minimum wages were not revised. Consequently, the composite index for the overall sector increased by 2.3 per cent. However, the real wage rate index (the nominal wage rate index deflated by the Colombo Consumers' Price Index) declined by 3.6 per cent compared to the previous year, as the annual average inflation rate was higher than the nominal increase. All categories in this sector exhibited this general feature of a deterioration in the real value. As nominal wages of the service sector remained unchanged during the year, the deterioration in the real wages in this sector was greater than in the other sub sectors.

TABLE 6.11
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	-0.13	-5.18	-10.45	-12.67	14.36	8.58	2.54
Kekulu rice	-9.40	-19.88	-13.85	-12.41	3.44	-8.52	-1.64
Beans	-9.56	-12.41	-11.83	-14.82	6.17	2.83	3.51
Cabbages	-17.64	-15.57	-6.70	-10.64	-7.83	-5.51	4.41
Brinjals	-24.79	-40.47	-41.06	-32.29	11.08	-12.08	-12.95
Pumpkins	5.45	-15.37	-22.98	-27.56	45.58	16.83	6.33
Red onions	8.91	-4.63	-8.11	-5.04	14.69	0.42	-3.24
Big onions	8.50	-2.13	4.17	1.35	7.06	-3.44	2.79
Potatoes	7.33	0.03	5.76	3.29	3.91	-3.15	2.40
Dried chillies	9.91	6.68	12.52	5.60	4.08	1.03	6.56
Kelawalla	13.74	4.87	13.45	-21.88	45.60	34.24	45.23
Hurulla	49.24	6.20	32.97	18.07	26.40	-10.05	12.62
Eggs (each)	6.82	18.64	8.66	11.81	-4.46	6.10	-2.82
Coconut (each)	-4.87	-19.96	-17.71	-15.75	12.90	-5.01	-2.34

(a) Provisional

Source: Central Bank of Sri Lanka

TABLE 6.12
Wage Rate Index Numbers
(December 1978=100)

Employment Category	Nominal		Real		Percentage Change in 2000	
	1999	2000(a)	1999	2000(a)	Nominal(a)	Real(a)
1. Government employees						
Central government employees	1,001.4	1,084.7	100.2	102.1	8.3	1.9
Non-executives	959.6	1,031.3	96.0	97.1	7.5	1.1
Minor employees	1,029.1	1,125.8	103.0	105.9	9.4	2.8
Government school teachers	805.5	865.1	80.6	81.4	7.4	1.0
2. Workers in wages boards trades						
All wages boards trades	977.6	1,000.4	97.8	94.3	2.3	-3.6
Workers in agriculture	1,116.0	1,142.7	111.7	107.7	2.4	-3.6
Workers in industry and commerce	829.2	857.2	83.0	80.8	3.4	-2.7
Workers in services	559.7	559.7	56.0	52.8	-	-5.7

(a) Provisional

Sources: Department of Labour
Central Bank of Sri Lanka

Minimum wages do not reflect the overall wage developments in the overall formal private sector. Certain employment categories, especially at the skilled, professional and managerial levels, enjoy compensation for any erosion of real wages due to inflation. They are also rewarded for productivity improvements. Hence, these categories may have enjoyed increases in real wages, if not stable real wages, although minimum wages in this sector have suffered deterioration in real terms during the reference period.

Informal Private Sector

Information on the daily wages of the informal sector of the economy is collected through a country wide data collection system. According to this information, the daily wages in informal sector economic activities increased at

different rates during the year, with real wage increases being registered in most of the categories. The respective ranges of nominal wage increases were 11 to 21 per cent in rubber cultivation, 8 to 13 per cent in paddy cultivation, 7 to 19 per cent in tea cultivation, 7 to 15 per cent in coconut cultivation and 7 to 11 per cent in building construction. All these employment categories registered increases in real wages during the year.

As mentioned at the outset, the recent wage increases exerted pressure on prices. Although some formal private sector institutions link their wage adjustments and other remuneration to productivity gains, public sector institutions do not. This situation could fuel a price-wage spiral. Thus, wage increases in any sector will be counter productive in the long term, unless such increases are eventually linked to higher productivity.