

Chapter 6

PRICES AND WAGES

6.1 Prices

Though the economy experienced a rising trend in consumer prices throughout 2001, due to the combined effects of multiple factors predominantly related to the supply side, the demand pulled inflationary pressure was contained by a tight monetary policy stance which permitted only a moderate monetary expansion. In the meantime, a vicious circle of a wage price spiral was also averted by a less than full adjustment of wages in the private sector to rising prices.

Price developments in 2001 marked a continuation of the rising inflation that began in mid 2000 following on a continuous gradual decline since late 1998. The inflation rate, by the end of the year, was the second highest over the last decade. The accumulated impact of a myriad of factors contributed to this development. Among them, the prominent factors were the following: temporary weaker supply conditions due to a prolonged drought, the direct and indirect effects of administered price adjustments in late 2000 and in 2001, international price increases of some key consumer and intermediate goods imports, currency depreciation, imposition of an import surcharge of 40 per cent on most items since mid February and the adjustments in open market prices to cover increased costs of production. Although prices of certain food items dropped in some months following the usual seasonal patterns, albeit to a lesser extent, their impact was swamped by the rising trend of price increases due to other factors.

Price increases in 2001, in contrast to the developments in 2000, were mainly due to the deleterious factors affecting domestic production and supply. In the year 2000, domestic food production expanded and contributed favourably to maintain price stability by dampening the mounting pressure on domestic prices emanating from import prices. Conversely in 2001, a drop in the domestic production of staple food items was a major factor that fuelled inflation. Paddy production, which recorded a bumper harvest in the previous year, fell by around 6 per cent in 2001, leading to a price increase of around 13 per cent for paddy by the end of the year. The control of rice imports through an import licensing system disrupted market forces. Accordingly, the prices of all varieties of rice were higher compared to the previous year. Rice prices reached record high levels towards the end of the year, reflecting delays in allowing imports to fill the shortage in the domestic supply. Coconut recorded a drop of around 10 per cent in

production and a consequent price increase of around 14 per cent, in contrast to a production increase of 9.5 per cent and a price drop of 25 per cent in the previous year. High import duties on substitutes of coconut oil such as vegetable oils discouraged the substitution shift of demand and exerted further pressure, thereby allowing coconut prices to increase sharply. Unfavourable weather affected the production of most varieties of low country, and some varieties of upcountry vegetables. The impact was reflected in vegetable prices, which were significantly higher in 2001 compared to the previous year and, in certain cases, against reductions in the previous year. Prices of subsidiary food crops too were higher than in the previous year due to low production. As in the previous year, fish prices rose in 2001, following a drop of around 4 per cent in production due to disruptions to fishing activities.

Increases in administered prices during the year, though to a lesser degree than in the previous year, of essential food and non-food consumer goods and intermediate goods, contributed to rising prices in 2001 as well. The spillover of the administered price increases of prime intermediate goods such as petroleum products towards the end of the previous year too had a significant impact on price

TABLE 6.1
Annual Average Price Changes (%)

YEAR	CCPI	GCPI	CDCPI	WPI	GNPD	GDPD
1980	26.1	-	-	33.7	18.2	18.1
1981	18.0	-	-	17.0	20.6	20.6
1982	10.8	-	-	5.5	10.2	9.9
1983	14.0	-	-	25.0	14.7	14.6
1984	16.6	-	-	25.6	17.4	17.1
1985	1.5	-	-	-15.2	0.8	0.9
1986	8.0	-	-	-2.9	5.5	5.8
1987	7.7	-	-	13.4	6.8	6.7
1988	14.0	-	-	17.8	11.5	11.5
1989	11.6	-	-	9.0	9.7	9.6
1990	21.5	24.6	-	22.2	20.0	20.0
1991	12.2	11.5	-	9.2	11.2	11.0
1992	11.4	9.4	-	8.8	10.0	10.0
1993	11.7	8.4	-	7.6	9.5	9.5
1994	8.4	4.8	-	5.0	9.4	9.3
1995	7.7	3.9	-	8.8	8.4	8.4
1996	15.9	14.7	-	20.5	12.2	12.1
1997	9.6	7.1	7.4	6.9	8.7	8.6
1998	9.4	6.9	7.3	6.1	8.4	8.4
1999	4.7	3.8	3.6	-0.3	4.4	4.4
2000	6.2	3.2	3.6	1.7	6.7	6.7
2001	14.2	11.0	10.3	11.7	12.9(a)	13.0(a)

(a) Provisional

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

TABLE 6.2
Administered Price Revisions in 2000 and 2001

Item	Unit	Price before Change	Price after Change	Absolute Change	% Change	Date of Revision
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-first 30 units)	unit	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	1 ltr.	10.40	15.40	5.00	48.1	07/02/00
Kerosene	1 ltr.	15.40	17.40	2.00	13.0	16/11/00
Kerosene	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 (economy)	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
Price revisions in 2001						
Bread	450 gm. (Loaf)	8.50	9.00	0.50	5.9	26/10/01
Bus fare	fare unit	5.00	6.00	1.00	20.0	07/02/01
Bus fare	fare unit	6.00	7.00	1.00	16.7	07/03/01
Bus fare	fare unit	6.50	7.50	1.00	15.4	07/04/01
Coconut Arrack	750 ml.	270.00	280.00	10.00	3.7	02/04/01
Diesel	1 ltr.	24.50	27.50	3.00	12.2	16/04/01
Diesel	1 ltr.	27.50	26.50	-1.00	-3.6	31/12/01
Electricity (Domestic)	25% Fuel Adjustment Surcharge for all units used					
Furnace oil 1000 seconds	1 ltr.	14.60	16.50	1.90	13.0	16/04/01
Furnace oil 1500 seconds	1 ltr.	14.00	15.90	1.90	12.9	16/04/01
Furnace oil 3500 seconds	1 ltr.	12.40	14.10	1.70	13.7	16/04/01
Kerosene	1 ltr.	18.40	19.40	1.00	5.4	16/04/01
Kerosene	1 ltr.	19.40	17.40	-2.00	-10.3	16/11/01
Lion Lager	625ml.	50.00	55.00	5.00	10.0	04/04/01
Water	fixed charge	35.00	40.00	5.00	14.3	18/01/01
Water	first 10 units	free	10.00			18/01/01
Water	next 15 units	48.75	60.00	11.25	23.1	18/01/01
Water	next 20 units	62.50	85.00	22.50	36.0	18/01/01
Wheat flour (Prima)	1kg.	15.00	18.00	3.00	20.0	28/12/01

(a) Lowest bracket

Source: Central Bank of Sri Lanka

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

increases, especially during the early part of the reference year. Within the last two months of 2000, the price of diesel was raised by five rupees per litre, an increase of 26 per cent, which was the required adjustment to cover the increase in the cost of production. During the same period, prices of kerosene and LP gas were raised by 19 per cent and 8 per cent, respectively. Continuation of higher prices of crude oil led to a further upward price revision of diesel and kerosene in the early part of 2001. Though international oil prices dropped towards the latter part of the year, accumulated losses of the previous years did not permit a commensurate reduction in domestic prices to pass the entire benefit of low prices over to the consumer. However, some reduction was made in the prices of

kerosene and diesel in mid November and end December, respectively. The imposition of a fuel surcharge on the electricity tariff due to the increase in thermal power generation with the falling capacity of hydro power generation, along with price revisions of bus fares, water supply, alcoholic beverages and some varieties of milk food, also intensified the pressure on prices.

Along with some pressure from the external sector on domestic prices through international commodity prices and currency depreciation against the US dollar of around eleven per cent from December to December, the imposition of specific duty rates and surcharges on imported items exerted further pressure on domestic prices.

All available measures of price movements reflected the rising trend in prices throughout the year. The Colombo Consumers' Price Index (CCPI), the official index of consumer price inflation, computed and published by the Department of Census and Statistics (DCS), and covering low income households in the Colombo Municipal area, registered an annual average increase of 14.2 per cent for 2001. This increase is significant when compared with the corresponding increase of 6.2 per cent in 2000 and 4.7 per cent in 1999. The Greater Colombo Consumer Price Index (GCPI), an alternative measurement of the aggregate price level with a broader geographical coverage than the CCPI, registered an annual average increase of 11 per cent compared to the corresponding increase of 3.2 per cent in the previous year. The Colombo District Consumer Price Index (CDCPI) too, another measure of the aggregate price level computed by the Central Bank of Sri Lanka (CBSL) with an even wider geographical coverage than the GCPI, registered similar price developments as the other two indices. The annual average increase of the CDCPI was 10.3 per cent in 2001 as against the corresponding increase of 3.6 per cent in 2000. The above three indices measure the retail price movements of consumer items and are each confined to a selected consumption basket. The Wholesale Price Index (WPI) measures the price movements at primary market level and covers both intermediate and investment goods in addition to consumer items. The price developments indicated by the WPI were also consistent with those reflected in the consumer price indices. The annual average increase of the WPI was 11.7 per cent for 2001, compared with 1.7 per cent in 2000. The GDP deflator, a more representative indicator of overall price movements as it covers overall economic activity, too reflected the price developments indicated by all other indices. The GDP deflator registered an increase of 13 per cent in 2001 compared to its increase of 6.7 per cent in the previous year.

Colombo Consumers' Price Index (CCPI)

The CCPI registered an annual average increase of 14.2 per cent in 2001. The index started its rising trend in May 2000 and continued throughout 2001. The point to point

change of the index, which measures the change in the index in a particular month compared to the corresponding index value of the previous year, marked higher increases for the reference year than for the previous year in all months. The point to point increase ranged from 10.8 per cent to 16.6 per cent in 2001 compared to the range of 0.3 per cent to 10.8 per cent in 2000. This trend indicated that price pressure prevailed throughout the year. Among the sub indices of the CCPI, the Food sub index registered the highest annual average increase of 15.2 per cent. The corresponding increase of the index in the previous year was 4.5 per cent. The Fuel and light index, which registered the highest annual average increase of 18.6 per cent in 2000, mainly due to administered price increases of kerosene, increased at a relatively high rate, 14.3 per cent, due to successive administered price increases in 2001 too. The sub index for Miscellaneous items too indicated a similar pattern to the Fuel and light sub index due to inclusion of items whose prices were raised administratively in both 2000 and 2001. It registered an annual average increase of 11.7 per cent in 2001 as against 9.6 per cent in 2000.

The Food sub index, which has a share of around 62 per cent in the representative consumer basket of the index, contributed to around 77 per cent of the overall price increase in the reference period. The corresponding contribution of the sub index in the previous year was around 52 per cent. The contribution of the Fuel and Light sub index, which was unusually high at 21 per cent in 2000, was 8 per cent in 2001. The sub index on miscellaneous items, which contains such items as transport, health care, betel, arecanut, liquor and tobacco, contributed to around 14 per cent of the overall price increase in 2001, compared to the corresponding contribution of 26 per cent in 2000. The two sub indices of Fuel and light and Miscellaneous items are relatively more sensitive to price changes related to the external sector, due the inclusion of imported items such as petroleum products and medicines in those indices. The Food sub index is dominated by

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 (%)	
		2000	2001	2000	2001	Dec-'00	Dec-'01	2000	2001
All items	100.0	2,539.8	2,899.4	6.2	14.2	10.8	10.8	100.0	100.0
Commodity-wise									
Food	61.9	2,815.8	3,244.7	4.5	15.2	9.7	12.0	52.4	76.8
Clothing	9.4	872.9	909.6	1.1	4.2	2.7	6.1	0.6	1.0
Fuel and light	4.3	4,660.9	5,328.9	18.6	14.3	27.4	5.0	21.0	7.9
Rent	5.7	109.8	109.8	-	-	-	-	-	-
Miscellaneous	18.7	2,802.4	3,131.1	9.6	11.7	10.8	10.0	26.0	14.3

Source: Department of Census & Statistics.

Box 8

A New Countrywide Consumer Price Index to Measure Inflation in Sri Lanka**1. Introduction**

Inflation is defined as a general increase in the price level that affects the purchasing power of money. Often, the price level is computed in terms of a consumer price index (CPI). Consequently, inflation during any period of time is measured by the rate of change of the CPI during that period.

Inflation is linked to other variables relating to the real, fiscal, external and monetary sectors of the economy: consumption and investment, wages, employment and income distribution, government revenue and expenditure, the exchange rate and foreign exchange earnings, interest rates and savings. All these are affected by and in turn affect, inflation as well. In this context, there are many uses of price indices in economic decision-making and planning. Some of them are:

- to compute the Cost of Living Allowance (COLA) in wage agreements;
- to index future contractual payments such as property rents;
- to compile real effective exchange rates to measure international price competitiveness;
- as price deflators when computing economic indicators such as GDP in real terms;
- as price deflators to assist planners in calculating future financing requirements.

Against this background, the importance of a representative and timely CPI which can provide a single, realistic measure of inflation is of critical importance in any country.

To compute a CPI it is necessary to identify and apply certain technical measures: a statistical method for computing the index, usually a Laspeyres Index; a base period; a definition of the consumer population to which the index would apply, usually in terms of geographical and income/expenditure group coverage; a basket of goods and services that reflects the consumption pattern of that population during the base period; a set of weights that reflects the importance in value of each good and service in the basket; a set of base period prices corresponding to each good and service in the basket; and a system of price collection for each good and service in the basket at regular points in time from the base period.

2. Background

Unlike in many countries, until this year, Sri Lanka did not have a countrywide consumer price index. The Colombo Consumers' Price Index (CCPI) is a limited regional index that reflects the consumption patterns of low-income households in the City of Colombo captured in a family budget survey conducted nearly 50 years ago. Hence, this index is not representative of the aggregate price level in the entire country. Since the first publication of the CCPI in 1952, half a dozen other consumer price indices (CPIs) have been produced, all of which are region and income group specific. No attempt was made to compile a countrywide CPI until very recently, for reasons discussed below. In this context, the official compilers of CPIs as well as their users have felt, for a long time, the need for a countrywide CPI for Sri Lanka.

There are three CPIs currently published monthly, namely, the Colombo Consumers' Price Index (CCPI) and the Greater Colombo Consumers' Price Index (GCPI) by the Department of Census and Statistics (DCS) and the Colombo District Consumer Price Index (CDCPI) by the Central Bank of Sri Lanka (CBSL). These CPIs essentially reflect the consumption patterns of the lower income households in the City of Colombo and its immediate environs. In addition, since 1999, the CBSL has compiled three monthly Regional Consumer Price Indices, namely, the Anuradhapura Consumer Price Index (APCPI), Matale Consumer Price Index (MLCPI) and Matara Consumer Price Index (MRCPI). These regional indices have not been published monthly, but have received limited coverage in Annual Reports of the CBSL since 1999. All these six indices cover the consumption baskets of low-income households in the respective regions. Furthermore, as an initial attempt to achieve wider geographical and income group coverage on an experimental basis, in 1999, the CBSL also developed and compiled a Western Province Consumer Price Index (WPCPI), which covers the lowest 65 per cent of its households classified by income. This index was used only for internal purposes and remained unpublished. The latter 4 monthly CPI series are available from 1996 onwards. In addition to these CPIs, the GDP Implicit Price Deflator compiled annually is also available for measuring price inflation in the country.

Box 8 (Contd.)

The CCPI has remained the official price index most commonly used for most wage indexing and policy purposes. The inherent weaknesses of this index with such an outdated base have been highlighted over the years by compilers, policy-makers and the public. The use of an out-dated basket of goods, in general, leads to two types of computational biases, namely, those caused by missing values for goods that no longer exist and those caused by quality changes of items in the index over long periods of time. A technical mission to Sri Lanka on Consumer Price Statistics from the International Monetary Fund (IMF) in October 1998 prepared a detailed report¹ on such limitations. A more recent research paper² also highlighted the limitations of this index.

In recognition of these shortcomings, the DCS made considerable efforts in 1989 to replace this index by the GCPI. Later, in 1997, the CBSL introduced the CDCPI. However, the CCPI, despite its very well documented limitations, has continued to remain the most widely used official measure of consumer price inflation in Sri Lanka.

Meanwhile, there has been a recent shift in the policy direction of the CBSL to concentrate primarily on key core objectives, the first of which is price stability. This objective cannot be achieved successfully unless there is an overall measure of inflation for the country as a whole. At the same time, the economy has diversified and developed and there has been a significant expansion of the middle class in terms of the spending patterns of the population. The existing CPIs, which cover only the low-income households, do not capture these changes that have taken place. Furthermore, information on household consumption patterns in regions other than Colombo and its environs is of importance to policy makers. The existing regional CPIs only partially satisfy these information requirements.

One practical explanation for there being no attempt in the past to compile a countrywide CPI was the need for strict timeliness in the release of such indices. In most countries, there is a lag between the month end and the release of that month's CPI. In fact, the time lag set under the Special Data Dissemination Standards

(SDDS) of the IMF is one month. However, Sri Lanka has throughout achieved higher standards of timeliness, as both the CCPI and the CDCPI for a given month are released to the public on the last working day of that month. Such timeliness has only been possible by maintaining a very strict timetable for routine collection of monthly price information. In the past, available communication facilities did not enable such a timely and efficient system to cover the entire country. Hence, the geographical coverage of each CPI was limited. However, with advances in information technology and the corresponding exponential improvement in telecommunication facilities in the country, timely collection of prices across the entire country is now entirely feasible.

Against this background, the Ministry of Finance and Planning, in April 2001, established a national committee to conceptualise and develop a countrywide CPI. This task was given high priority.

3. Basic Features of the Proposed Countrywide Consumer Price Index

The DCS has now developed a countrywide Sri Lanka Consumer Price Index (SLCPI) based on its most recent Income and Expenditure Survey (IES) conducted in 1995/96 with the following features:

- **Methodology:** The SLCPI is calculated as a Laspeyres index.
- **Base Period:** The base period would cover 3 years to include the years prior to, during and following the survey (1995-1997). This 3-year average would ensure that the base period was robust against biases that could arise due to extreme economic conditions in any single base year, as for example, a drought year or a world recession year.
- **Geographical Coverage:** The SLCPI would cover the entire country except the North and the East, which were not covered in the 1995/96 IES. Price collection would cover the entire country except the North. It was expected that full geographical coverage would be achieved in the future, once an improvement in the security situation enables full countrywide coverage for future surveys and price collection.
- **Income/Expenditure Coverage:** Comparison of the index comprising the lowest 8 expenditure deciles was made with another comprising the middle 8 expenditure deciles that would avoid the potential bias of outliers in the lowest and highest 10 per cent of households classified by expenditure. The differences

1. "Report on the Consumer Price Statistics Mission" by Fenella Maitland Smith, International Monetary Fund, 2 February 1999.

2. "The Problems of Measuring the Cost of Living in Sri Lanka" by R B M Korale, Institute of Policy Studies, June 2001.

in weights were found to be marginal. Accordingly, the SLCPI would cover the lowest 8 deciles of household expenditure.

- **Consumption Basket:** The SLCPI uses a basket of 174 goods and services that cover 89.2 per cent of the consumption expenditure of the target population in the 1995/96 IES. The remaining 10.8 per cent of expenditure was redistributed proportionately among homogeneous categories of goods.
- **Weights:** The weights in the SLCPI were calculated from expenditure values in the 1995/96 IES. These weights would be updated every 5 years with information from the 5-yearly IES to be conducted by the DCS in the future, to ensure that changes in consumption patterns over time would be reflected in the index.

It was unanimously agreed in the National Committee that the compilation of a countrywide consumer price index would be the responsibility of the National Statistical Agency, the DCS, rather than the CBSL. This decision would enhance credibility of the index with the public. The CBSL is responsible for implementing monetary policies geared towards a specific target of price stability. An independent institution, the DCS, would be responsible for measuring the outcome of those policies in attaining the target. The Committee also agreed that the DCS would launch the new SLCPI on a trial basis beginning in early 2002.

4. Comparative Analysis

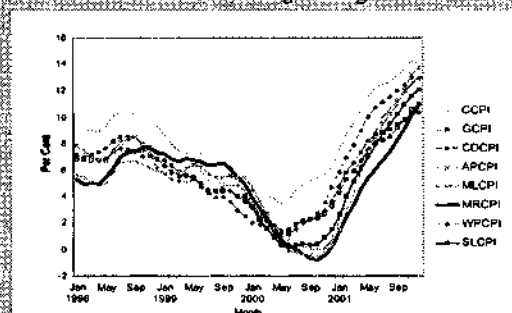
In order to provide a background against which to assess the SLCPI, Tables 1 and 2 and Chart 1 provide summary comparative information on the compilation of the index, consumption weights and movements of indices for the SLCPI and all existing CPIs compiled by the DCS and CBSL.

When all these indices are compared, it is seen that the weights structure among sub indices does not vary very significantly across the indices, and the same key consumption items dominate all the indices and account for over 50 per cent of consumption throughout. However, the weights associated with these key items do differ somewhat. In particular, the CCPI weights for bread, vegetables and fish were relatively higher than in the other indices, with the opposite phenomenon in the case of rice and coconuts (Table 2).

While differences in price levels exist across indices, it is the changes in price levels, rather than the difference in levels between indices that would affect

inflation. Such different price changes led to varying levels of inflation across the indices. Yet, the trends in inflation were generally consistent across all indices, for most periods of time, thereby indicating that, albeit with some variation in magnitude, inflation was similar across all geographical areas and income groups (Chart 1).

Chart 1
Trends in Price Indices
Annual Average Change



These findings confirm the need for one index that provides a composite and meaningful measure of the overall change in consumer price levels across the country that can be used for all policy purposes – be they related to wages, regional development, price stability or financial system stability. The new SLCPI compiled by the DCS satisfies all these requirements.

5. Conclusion

- The new SLCPI would provide an updated, realistic assessment of consumer price inflation for the country as a whole. It not only gives a far better coverage in all respects when compared with other existing CPIs, but is also consistent with their measurement of inflation.
- The long-term plan of action for the compilation of the SLCPI ensures that with the updating of weights every five years the consumption basket will continue to remain meaningful, unlike with previous indices where the historical use of those indices far exceeded their representativeness of changing consumption patterns over time.
- In view of the well-recognised limitations of existing indices, the SLCPI merits adoption by the public as soon as possible.
- In order that the policy makers and the public accept and adopt the SLCPI in its entirety, other consumer price indices would require to be withdrawn from

Box 8 (Contd.)

Box 8 (Contd.)

publication once the trial period for the new SLCPI is over, say in six months to one year.

- In view of the past negative experience of new indices not gaining acceptance by the public (e.g.

GCPI in 1989), it is important that households, businesses, business chambers and trade unions all understand and appreciate the national importance of accepting and using the SLCPI.

Table 1 – Summary Information on Monthly Consumer Price Indices in Sri Lanka

Index	Source of Base Information	Base Period	Geographical Area	Income Group	Sample Size	No. of Consumption Items	No. of Price Collection Centres
CCPI	DCS Family Budget Survey 1949/50	1952	Colombo Municipality	Monthly income between Rs 55 and Rs. 485	455 HH	187	7
GCPI	DCS Labour Force and Socio-Economic Survey 1985/86	Jan 1989 - Jun 1989	Greater Colombo Area	Lowest 40% (Expenditure)	419 HH	217	15
CDCPI	CBSL CFS 1996/97	Oct 1996 - Sep 1997	Colombo District	Lowest 40%	383 SU	197	11
APCPI	CBSL CFS 1996/97	Oct 1996 - Sep 1997	Anuradhapura District	Lowest 40%	172 SU	162	06
MLCPI	CBSL CFS 1996/97	Oct 1996 - Sep 1997	Matale District	Lowest 40%	119 SU	142	03
MDCPI	CBSL CFS 1996/97	Oct 1996 - Sep 1997	Matara District	Lowest 40%	178 SU	176	06
WPCPI	CBSL CFS 1996/97	Oct 1996 - Sep 1997	Western Province	Lowest 65%	1,932 SU	217	15
SLCPI	DCS Household Income and Expenditure Survey 1995/96	1995-1997	Entire country excluding Northern and Eastern Provinces	Lowest 80% (Expenditure)	16,031 HH	174	34 (including Eastern Province)

HH - Households

SU - Spending Unit

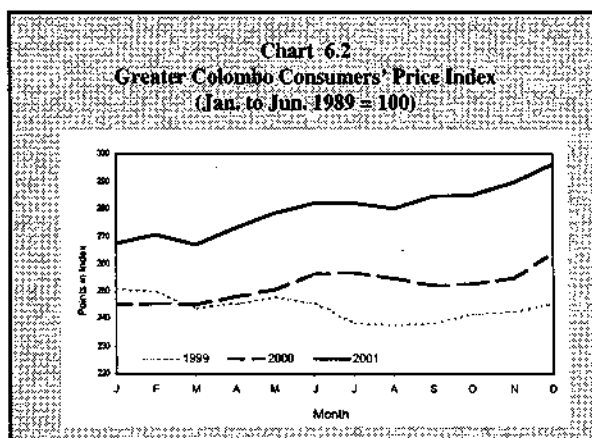
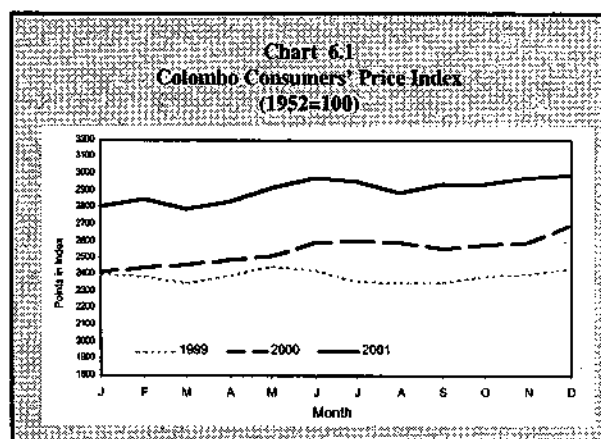
Table 2 – A Comparison of Weights Used In Consumer Price Indices

Sub Categories and Key Items	CCPI	GCPI	CDCPI	WPCPI	APCPI	MLCPI	MRCPI	SLCPI
	(1952 = 100)	(Jan-Jun 1989 = 100)	(Nov 1988 - Oct 1997 = 100)	(Nov 1988 - Oct 1997 = 100)	(Nov 1988 - Oct 1997 = 100)	(Nov 1988 - Oct 1997 = 100)	(Nov 1988 - Oct 1997 = 100)	(1995 - 1997 = 100)
1. Food, Beverages and Tobacco	70.2	73.1	63.1	64.2	70.9	65.9	68.8	71.2
1. Rice	8.8	12.9	10.6	11.8	17.9	16.2	15.5	16.3
2. Bread	4.6	4.3	4.2	4.0	3.0	3.4	3.6	3.0
3. Sugar	3.1	5.5	2.6	2.8	3.4	4.1	3.4	3.4
4. Vegetables	6.0	5.3	3.9	3.6	4.7	4.6	3.1	5.6
5. Fish	10.2	7.0	7.9	7.8	5.6	6.3	3.3	7.2
6. Coconuts	1.9	4.1	4.2	4.5	6.9	6.3	5.8	5.4
7. Tobacco	3.2	2.5	2.5	1.9	3.0	1.3	1.4	3.6
2. Clothing and Footwear	9.4	2.8	6.2	7.7	6.7	9.2	6.0	4.1
8. Clothing	9.4	2.8	5.3	6.5	5.8	8.2	5.1	3.7
3. Housing, Water, Electricity, Gas and Other Fuels	10.0	14.3	18.2	7.6	10.6	11.6	11.2	13.1
9. Firewood	2.8	2.7	1.9	3.0	3.3	3.3	2.7	2.2
4. Transport	1.9	2.7	3.7	5.5	2.6	2.4	2.0	2.9
10. Bus Fare	1.9	2.6	2.8	3.0	1.8	2.1	2.0	1.9
5. Miscellaneous Goods and Services	4.9	4.2	7.1	6.8	5.1	4.2	5.1	2.1
11. Personal Care	2.5	1.3	2.0	3.3	2.7	1.8	4.5	1.7
6. Total of Sub Categories 1 to 5 above	96.4	97.1	98.3	91.7	95.8	93.3	93.1	93.4
of which: key items 1 to 11 above	57.5	53.5	50.2	54.1	61.1	58.8	57.8	57.6
7. Other Sub Categories Total	3.6	2.9	1.7	8.3	4.2	6.7	6.9	6.6
8. TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

domestically produced items such as rice, coconut, fish and vegetables. Hence, the movements in that sub index are more affected by changes in domestic production. The drop in domestic agricultural production was a significant feature in 2001, and a reversal of what was experienced in the previous year. Accordingly, the price increases related to domestic production were dominant in the reference period. The contribution of the Clothing sub index to the overall price increase was negligible at 1 per cent. The Rent sub index did not have any impact, since it is historically fixed.

Greater Colombo Consumers' Price Index (GCPI)

The GCPI registered an annual average increase of 11 per cent in 2001. The Food and drink sub index, with a share of around 69 per cent, increased by 11.3 per cent in 2001 compared to a marginal increase in 2000. The highest annual average increase of 21.5 per cent was registered by the sub index of Transport and communication, which has a relatively lower weight. In 2000 too, this sub index registered a high increase. The administered price increases



in bus fares in both years was the main reason for such behaviour. The sub indices on Fuel and light and Liquor, tobacco, betel and arecanut indicated patterns similar to the Transport and communication sub index for reasons similar to those discussed for the CCPI. The sub indices of Personal care, health services and household goods and services, Miscellaneous items and Clothing and footwear registered relatively higher increases in their annual averages in 2001 than in 2000. These changes indicate the impact of subsequent price adjustments of such items to rising costs of production since mid 2000. The Housing sub index, which has a fairly high share of around 9 per cent, did not have any significant price increase in either 2000 or 2001. The registered increase was marginal.

Colombo District Consumer Price Index (CDCPI)

The CDCPI registered an annual average increase of 10.3 per cent for 2001. The Food index, which is more sensitive to domestic supply conditions and weather conditions, registered an increase of 11.8 per cent, when compared to a marginal increase in the previous year. As with the CCPI

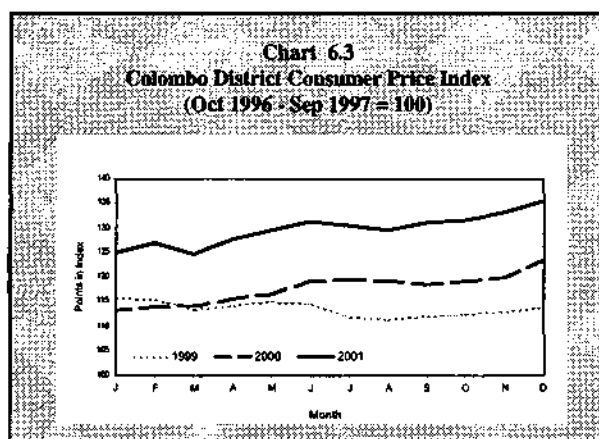
TABLE 6.4
Greater Colombo Consumers' Price Index (January to June 1989=100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		2000	2001	2000	2001	Dec. 2000	Dec. 2001
All items	100.0	252.0	279.6	3.2	11.0	7.3	12.4
Commodity wise							
Food and drink	69.3	260.8	290.3	1.4	11.3	6.2	14.3
Liquor, tobacco and betel and arecanut	3.8	396.1	433.2	13.0	9.4	13.5	2.6
Housing	8.9	110.2	110.4	0.1	0.2	0.2	0.2
Fuel and light	5.4	280.4	318.4	14.6	13.6	21.4	7.7
Clothing and footwear	2.8	250.8	261.6	2.0	4.3	4.0	3.4
Personal care and health services, household goods and services	4.9	266.7	300.1	3.3	12.5	3.7	17.0
Transport and communication	2.8	246.1	299.0	20.4	21.5	22.8	11.2
Miscellaneous	2.1	200.6	215.3	-1.2	7.3	-1.6	11.7

Source: Department of Census & Statistics.

and GCPI, the increases in administered price of certain items in 2001 that followed similar increases in 2000, led to some sub indices registering annual average increases closer to the respective increases in the previous year. Such indices are Fuel and light, Liquor, tobacco, betel and arecanut and Transport. As with the GCPI, Clothing and footwear, Personal care and health care, Education and recreation, and Miscellaneous items registered higher price increases in 2001 than in 2000.

The CDCPI too indicated the shift in importance of the contribution of different sub indices in 2001 compared to 2000. The Food sub index, which has a share of around 59 per cent, contributed to around 66 per cent of the overall price increase. The corresponding contribution in the previous year was around 28 per cent. The sub indices of Fuel and light, Liquor, tobacco, betel and arecanut and Transport, which contributed significantly in 2000, had relatively low contributions in 2001.



Wholesale Price Index (WPI)

The WPI measures the price movements at the primary market level and can be used as an indicator of future price movements. The WPI registered an annual average increase of 11.7 per cent in 2001 compared to 1.7 per cent in 2000. This trend was consistent with the trends indicated by the consumer price indices discussed earlier in this section. All sub indices of the overall index recorded increases in 2001, in contrast to 2000, where marginal declines were recorded by some sub indices, including the Food sub index, which has the highest share of around 68 per cent. The annual average increase in the Food sub index in 2001 was 13.1 per cent. In the previous year this sub index registered a drop of around 2 per cent. The Petroleum products sub index, which represents the second highest share in the overall index, recorded an annual average increase of 22.5 per cent. In the previous year too, the index registered a similar increase. The Chemicals and chemical products sub index, with a share of 5.2 per cent, increased by 11.9 per cent against a low increase in the previous year. The Alcoholic drinks sub index with a relatively low share increased by 7.5 per cent. The other sub indices that marked higher annual average increases are Electrical appliances and supplies, Transport equipment and Machinery. However, their impact on the overall index was not significant due to their lower weights.

The WPI measures price movements under two different sector-wise classifications of goods. One classification is based on the origin of goods and contains the three categories of Domestic group, Import group and Export group. The other classification is based on the use of goods and contains the three categories of Consumer goods, Intermediate goods and Investment goods. According to the origin of goods classification, the domestic group registered an annual average increase of 11 per cent in

TABLE 6.5
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 (%)	
		2000	2001	2000	2001	Dec. 2000	Dec. 2001	2000	2001
All items	100.0	117.5	129.7	3.6	10.3	8.5	9.7	100.0	100.0
Commodity wise									
Food and drink	58.7	115.7	129.4	1.7	11.8	8.6	12.9	27.8	66.2
Housing	13.2	112.4	119.3	2.6	6.9	2.3	0.3	9.3	1.1
Fuel and light	4.9	138.3	160.6	15.8	16.1	23.8	9.1	23.0	9.0
Clothing and footwear	6.2	108.0	113.6	1.6	5.2	3.4	4.4	2.6	2.9
Liquor, tobacco and betel and arecanut	4.4	152.3	167.6	12.4	10.1	15.3	-0.2	18.5	5.6
Personal care and health services	3.8	118.2	129.8	4.1	9.8	10.3	7.3	4.4	8.7
Education and recreation	2.8	106.5	121.9	2.2	14.4	5.2	14.6	1.5	3.5
Transport	3.7	118.8	139.6	14.3	17.5	13.3	11.5	13.5	6.8
Miscellaneous	2.3	118.2	127.6	-0.9	8.0	-0.6	17.8	-0.6	1.7

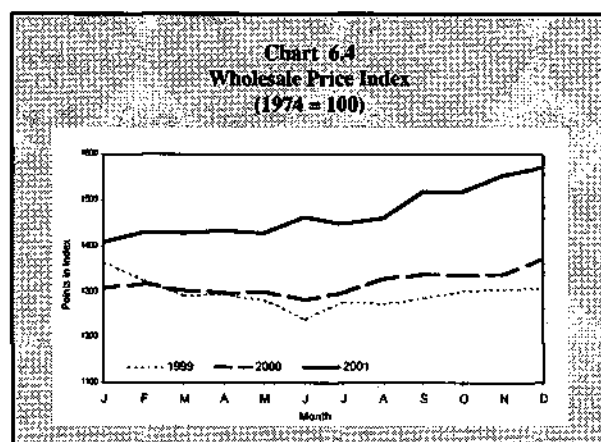
Source: Central Bank of Sri Lanka

TABLE 6.6
Wholesale Price Index (1974 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		2000	2001(a)	2000	2001(a)	Dec. 2000	Dec. 2001(a)
All items	100.0	1,317.2	1,471.2	1.7	11.7	4.8	14.7
Commodity wise							
Food	67.8	1,187.1	1,343.1	-2.1	13.1	1.9	19.7
Alcoholic drinks	2.9	1,750.1	1,881.5	6.1	7.5	9.7	5.6
Textile and footwear	4.0	632.9	642.4	-0.3	1.5	-0.1	1.5
Paper products	1.4	1,050.0	1,109.6	12.4	5.7	18.8	
Chemicals and chemical products	5.2	828.2	926.8	2.5	11.9	3.3	14.6
Petroleum products	6.4	1,859.6	2,277.2	21.7	22.5	35.5	9.1
Non metallic products	1.8	2,762.4	2,865.1	0.6	3.7	-4.4	2.9
Metal products	0.9	763.3	795.5	1.9	4.2	4.8	2.0
Transport equipment	0.8	916.8	1,015.3	3.5	10.7	7.3	4.0
Electrical appliances and supplies	1.0	848.6	953.4	0.7	12.3	10.4	11.4
Machinery	1.3	679.5	747.4	-1.7	10.0	3.4	17.1
Fuel and Light	1.8	2,853.4	2,929.4	5.9	2.7	0.9	2.8
Miscellaneous	4.8	2,687.3	2,793.8	7.5	4.1	2.6	6.4
Sectorwise no. I							
Domestic group	50.3	1,176.0	1,305.0	2.8	11.0	9.7	4.8
Import group	27.2	1,044.7	1,222.9	12.0	17.1	20.3	5.2
Export group	22.5	1,961.3	2,142.0	-5.3	9.2	-9.4	35.9
Sectorwise no. II							
Consumer goods	75.3	1,265.8	1,418.5	-1.1	12.1	2.5	17.8
Intermediate goods	20.5	1,464.5	1,640.6	11.8	12.0	14.5	6.7
Investment Goods	4.2	1,517.9	1,589.3	0.6	4.7	-2.5	5.1

(a) Provisional

Source: Central Bank of Sri Lanka



2001. The corresponding increase was low in 2000. These price changes reflect the setback in domestic production in 2001 discussed in previous sections. The Import group registered high increases in both 2000 and 2001. Price increases of major intermediate and investment items in the reference period contributed to such price developments. The export group registered a price increase of 9.2 per cent in 2001 against a decline of 5.3 per cent in the previous year. The increase in the export prices of coconut, coconut oil and tea were the main contributors to this increase. According to the use of goods classification, the Consumer goods index increased by 12.1 per cent in 2001, in contrast

to a marginal drop in 2000. The factors that contributed to the significant increases in the consumer price indices discussed above explain these increases. The two categories of Intermediate goods and Investment goods registered higher price increases in the reference year compared to the corresponding increases in the previous year. These two categories mainly contain imported items and hence, the factors that affected the import group in the origin of goods based classification affected the price movements in these two categories as well.

District-wise Inflation Rates

An effort was made by the Central Bank to measure the consumer price movements in three different regions of the country through the respective regional price indices, as all other available consumer price indices measure the price movements in Colombo-centered geographical regions. Accordingly, three regional price indices, namely, the Anuradhapura Consumer Price Index (APCPI), the Matale Consumer Price Index (MLCPI) and the Matura Consumer Price Index (MRCPI) were computed monthly to monitor such price movements. These price indices reflect the price movements of the consumption basket of the lowest 40 per cent of income receivers in these districts taken from the Consumer Finance and Socio-economic Survey (CFS) 1996/97 conducted by the Central Bank. All three regional indices reflected price movements similar to the Colombo-

TABLE 6.7
District-Wise Consumer Price Indices
(Oct.1996-Sep. 1997=100)

District	Indices			Percentage change	
	1999	2000	2001	2000	2001
Colombo	113.4	117.5	129.7	3.6	10.3
Anuradhapura	114.8	115.2	131.0	0.3	13.7
Matale	112.2	113.1	127.8	0.8	13.0
Matara	114.4	114.6	127.1	0.2	10.9

Source: Central Bank of Sri Lanka

based price indices. They registered much higher annual average inflation rates for 2001 compared to the respective rates in 2000. The inflation rates registered in 2001 by the APCPI, MLCPI and MRCPI are 13.7 per cent, 13 per cent and 10.9 per cent, respectively, in comparison to less than 1 per cent for all three indices in 2000.

Regional Price Variations

Price variations of different products among different regions followed a similar pattern to the past. Availability conditions as well as quality differences led to such price differences. Meanwhile, as indicated by these three regional price indices and prices in other regions as well, price changes, especially of agriculture commodities, have followed a similar pattern in general; falling through 1999 and the early part of 2000 and rising in the second half of 2000 and throughout 2001. Within this general pattern, other regional prices seem to have changed faster than in Colombo centered regions in both directions. Compared to producing areas, the non-producing areas have relatively better supply channels from various producing areas. Therefore, the impact of a supply glut or shortage in a particular producing area on the prices in non-producing areas could be cushioned by the supply from other

Chart 6.5
Monthly Prices of Selected Commodities

Chart 6.5.1
Kekulu Rice-Red

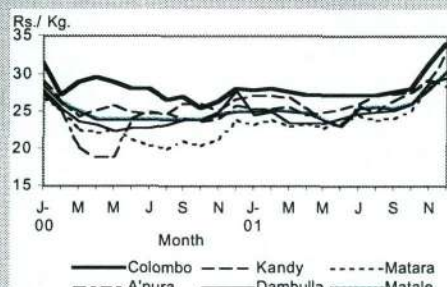


Chart 6.5.2
Coconut

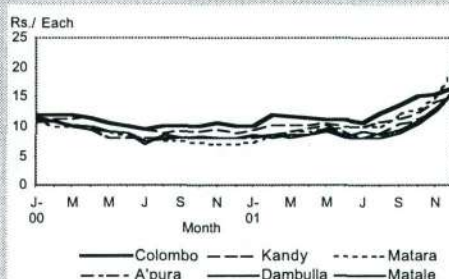


Chart 6.5.3
Green Beans

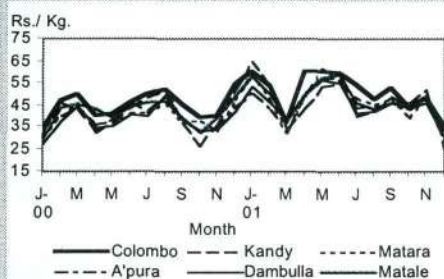


Chart 6.5.4
Fish-Balaya

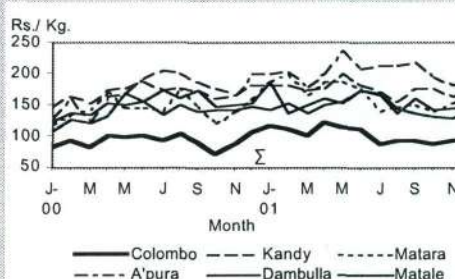


TABLE 6.8
Retail Prices of Selected Food Items
(All Island)

Item	Unit	2000 (Rs)	2001(a) (Rs)	% Change 2001(a)
Rice (ordinary par boiled)	kg.	23.50	25.98	10.6
Bread, 450 g.	Loaf	8.15	8.95	9.8
Eggs (ordinary)	Each	4.51	4.47	-0.9
Coconut (medium size)	Nut	7.48	8.51	13.8
Vegetables				
Bitter gourd	kg.	34.92	38.78	11.1
Cabbages	"	28.97	35.15	21.3
Carrots	"	41.84	45.82	9.5
Green beans	"	41.16	46.07	11.9
Leeks	"	35.56	38.46	8.2
Potatoes	"	39.82	63.29	58.9
Red onions (Medium)	"	58.66	67.38	14.9
Dried chillies (Gr. I)	"	121.59	134.86	10.9
Sea Fish				
Kelawalla	kg.	173.69	200.47	15.4
Mullet	"	138.93	154.34	11.1
Hurulla	"	92.26	103.03	11.7
Salaya	"	56.35	64.67	14.8

(a) Provisional

Source: Central Bank of Sri Lanka

producing areas. This could have been a key reason for the observed variations in price changes. Further improvements in distribution channels, communications and transport networks and encouraging farmers and traders to use modern techniques of handling, storing and packaging goods could reduce such price variations further, in the future.

6.2 Wages

Developments in employment and wages are analyzed under two main categories, namely, the public sector and the private sector. The private sector is again disaggregated into two sub sectors, namely the formal sector and the informal sector. Wage developments with rising inflationary pressure in 2000 and 2001 took two different directions with respect to the public sector and the private sector during this period. As seen from available indices, the lower wage categories of the public sector employees enjoyed a considerable increase in real wages in both years, while the private sector, in general, suffered real wage losses. Although the loss in real wages with rising inflation could

TABLE 6.9
Average Retail Prices of Selected Food Items in Selected Markets in 2000 and 2001(a)

(Rs./kg.)

Item	Colombo		Kandy		Matara		Anuradhapura		Dambulla	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Samba rice	31.16	34.60	30.92	34.60	29.45	33.60	27.63	31.08	27.04	30.56
Kekulu rice	28.18	28.24	25.10	26.79	21.98	24.77	23.86	26.37	24.37	25.28
Beans	45.25	50.91	39.67	46.85	39.03	47.35	39.56	45.15	38.33	45.75
Cabbages	30.45	39.33	25.82	34.07	26.20	37.12	29.08	33.22	27.72	34.05
Brinjals	35.42	39.30	27.45	31.77	21.28	26.15	21.65	24.87	24.20	30.26
Pumpkins	24.03	31.10	25.76	34.77	20.93	31.37	19.06	25.74	18.28	28.76
Red onions	64.79	66.58	70.11	74.55	62.73	67.48	58.65	68.37	60.84	71.05
Big onions	31.72	32.97	34.48	39.85	31.17	36.86	32.84	38.38	32.08	40.13
Potatoes	30.71	50.23	33.38	57.04	30.96	56.78	32.78	56.69	31.98	58.34
Dried chillies	112.67	129.94	122.67	138.38	119.77	136.83	125.63	142.21	117.75	132.70
Kelawalla	186.00	209.12	211.86	239.01	195.33	232.25	211.32	247.76	145.51	163.92
Hurulla	76.88	81.97	114.29	112.54	81.33	62.14	101.83	116.67	90.42	97.45
Eggs(each)	3.83	3.67	4.20	3.97	4.56	4.56	4.16	4.04	4.39	4.20
Coconut (each)	10.68	12.57	10.16	11.25	8.47	11.10	8.74	10.18	8.84	9.59

(a) Provisional

Source: Central Bank of Sri Lanka

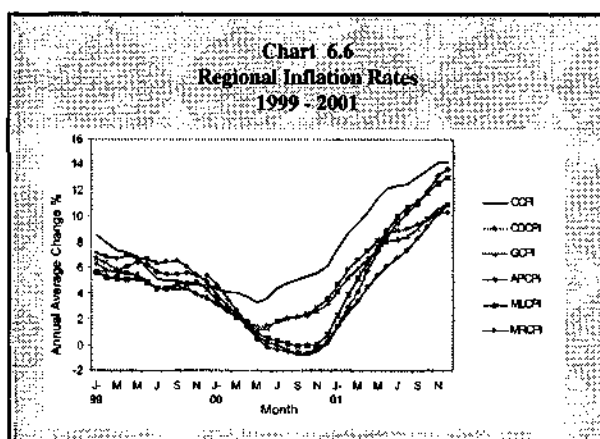
TABLE 6.10
Average Retail Prices of Selected Food Items in 2001 - Difference from Colombo and Dambulla(a)

Per cent

Item	Difference from Colombo				Difference from Dambulla		
	Kandy	Matara	Anuradhapura	Dambulla	Kandy	Matara	Anuradhapura
Samba rice	0.02	-2.88	-10.15	-11.68	13.24	9.96	1.72
Kekulu rice	-5.14	-12.28	-6.61	-10.46	5.95	-2.03	4.30
Beans	-7.97	-6.99	-11.30	-10.11	2.38	3.47	-1.33
Cabbages	-13.36	-5.60	-15.52	-13.43	0.09	9.04	-2.41
Brinjals	-19.16	-33.48	-36.72	-23.00	5.00	-13.60	-17.82
Pumpkins	11.77	0.87	-17.24	-7.53	20.87	9.08	-10.50
Red onions	11.96	1.35	2.68	6.71	4.93	-5.02	-3.77
Big onions	20.26	11.78	16.33	21.71	-1.19	-8.16	-4.42
Potatoes	13.55	13.04	12.86	16.13	-2.22	-2.66	-2.82
Dried chillies	6.49	5.31	9.44	2.12	4.28	3.12	7.17
Kelawalla	14.29	11.06	18.48	-21.62	45.81	41.69	51.15
Hurulla	37.30	-24.19	42.34	18.90	15.48	-36.24	19.71
Eggs (each)	8.42	24.35	10.23	14.46	-5.27	8.64	-3.69
Coconut (each)	-10.57	-11.73	-19.02	-23.71	17.22	15.70	6.15

(a) Provisional

Source: Central Bank of Sri Lanka



have mounted some pressure for compensating wage adjustments, the poor economic environment, which posed some threat of layoffs of employees, would have dampened the pressure to some extent. Accordingly, taming inflation should be given high priority in the coming year to avoid triggering any labour union pressure for higher wages that would result in a vicious circle of inflation and wage increases.

Public Sector

Public sector wage developments are monitored by the movement of the Wage Rate Indices (WRI) separately computed for Central Government Employees and Government School Teachers. However, it is important to understand the limitations of this index when drawing conclusions based on movements of the index. Despite its title, the index does not cover the wage movements of all central government employees. Rather, it covers non-executive and minor employees, but not executive employees. The overall WRI for Central Government Employees registered a nominal increase of around 21 per

cent in 2001 compared to a nominal increase of 8.3 per cent in 2000. The impact of the two wage increases in August and October of 2000, and the increase of Rs. 1,200 granted in November 2001 to all government employees was reflected in this higher increase in the index in 2001. The two main sub indices of the overall index, Non Executive Officers and Minor Employees, registered similar changes for 2001. The respective increases are 19 per cent and 23 per cent. The different employee categories under the former sub index registered nominal increases from 17 to 20 per cent. For the Minor Employees category, the increases ranged from 22 to 24 per cent. As these nominal wage increases exceeded the annual average inflation rate for 2001 as measured by the CCPI (14.2 per cent), all non-executive categories of employees of the central government enjoyed real wage increases during the year.

Formal Private Sector

The wage developments in the formal private sector are monitored through the Minimum Wage Rate Indices in trades coming under Wages Boards. The overall minimum wage rate index comprises three sub indices covering major activities, namely Agriculture, Industry and commerce and Services. Each sub index covers various activities under the main category. The overall minimum wage rate index for Wages Boards registered an annual average increase of 4.9 per cent in nominal terms for 2001. The corresponding increase for 2000 was 2.3 per cent. This was due to the revision of the minimum wages of several Wages Boards during the year. Such revisions were introduced for Wages Boards under all three categories of activities and were reflected in the increases registered by the three sub indices: The increase for Agriculture was 2.9 per cent, Industry and commerce was 7.3 per cent and Services was 17.5 per cent. In 2000, the sub indices of Agriculture and Industry and Commerce experienced lower increases (2.4 per cent and 3.4 per cent, respectively), whereas

TABLE 6.11
Wage Rate Index Numbers
(December 1978=100)

Employment Category	Nominal			Real			Percentage Change			
							Nominal		Real	
	1999	2000	2001(a)	1999	2000	2001(a)	2000	2001(a)	2000	2001(a)
1. Government employees										
Central government employees	1001.4	1,084.7	1,310.8	100.2	102.1	108.1	8.3	20.8	1.9	5.9
Non-executives	959.6	1,031.3	1,225.9	96.0	97.1	101.1	7.5	18.9	1.1	4.1
Minor employees	1029.1	1,125.8	1,388.2	103.0	105.9	114.5	9.4	23.3	2.8	8.1
Government school teachers	805.5	865.1	1,026.8	80.6	81.4	84.7	7.4	18.7	1.0	4.1
2. Workers in wages boards trades										
All wages boards trades	977.6	1,000.4	1,049.3	97.8	94.3	86.6	2.3	4.9	-3.6	-8.2
Workers in agriculture	1116.0	1,142.7	1,176.4	111.7	107.7	97.1	2.4	2.9	-3.6	-9.8
Workers in industry and commerce	829.2	857.2	919.7	83.0	80.8	75.9	3.4	7.3	-2.7	-6.1
Workers in services	559.7	559.7	657.6	56.0	52.8	54.3	0.0	17.5	-5.7	2.8

(a) Provisional

Sources : Department of Labour
Central Bank of Sri Lanka

Services did not have any increase at all. When these nominal increases are deflated by the annual average inflation rate based on the CCPI, only the Service sector employees had experienced a real wage increase during the year, while the organised private sector as a whole reflected a loss in remuneration for their services in real terms. It should be emphasised that the minimum wages do not represent the actual remuneration packages enjoyed by organised private sector employees. Some categories of employees, especially of higher grades, receive compensation in different forms, which is normally adjusted to reflect consumer price inflation. Accordingly, in contrast to movements of minimum wage statistics, some categories of employees in the formal private sector could have maintained their real wages or even enjoyed some increases during the reference year.

Informal Private Sector

The informal private sector has the highest enrolment in economic activity, and is around 70 per cent of the overall employed workforce. These workers are not covered by minimum wage regulations. Employees in this sector do not have collective bargaining power for wage negotiations. However, individual efforts to get an adjustment to their daily wages seemed to have some impact. Further, the wages in this sector tend to fluctuate with the changes in labour demand conditions which are closely related to production, especially in the agriculture sector. Wages also tend to respond to the market price of the product. For example, when tea prices are high there is a tendency to demand, as well as to accept, a higher daily wage to employees in that sector.

Wages of the informal private sector are collected under the Country-Wide Data Collection System (CWDCS) of the Central Bank. This information is collected for two main activities in the informal private sector, namely agriculture and construction. Under agriculture, wage information is collected for the cultivation of paddy, coconut, tea, and rubber. Under construction, information is

collected for carpentry and masonry. All employee categories under these main sectors recorded nominal wage increases at different rates in 2001. In the paddy sector the increases ranged from 8 per cent to 13 per cent. The respective ranges for wage increases of other sectors were 11 per cent to 19 per cent for coconut cultivation, 13 per cent to 14 per cent for tea cultivation and 6 per cent for rubber. The construction sector experienced wage increases within the range of 9 per cent to 12 per cent. Unlike in 2000, where all employee categories secured higher nominal wage increases than the inflation rate, thereby enjoying increases in real wages, a large number of employee categories suffered losses in real wages in 2001. Only some employees in the coconut cultivation sector enjoyed a real wage increase. As in the formal private sector, poor economic conditions, mainly due to the prolonged drought, could have prevented a full adjustment in nominal wages through falling labour demand, despite the higher inflation in 2001 compared to 2000.

When overall wage developments are considered, government sector wage increases should draw special attention. Successive increases in real wages without apparent improvements in productivity could lead to distortions in the labour market in the long term. Such increases could give wrong signals to job aspirants regarding their perceptions of the labour market, with a bias against the private sector and towards the public sector. These developments could disrupt efforts to create flexible labour markets that cater to the modern open market economy, which has been a long felt need. It is timely now to introduce, without further delays, a remuneration system which links wages to productivity for employees in the public sector. Wages are already related to productivity, to some extent, in the private sector. A national policy, that encompasses both the public and private sector to create a dynamic and productive labour market to meet the challenges of increasing globalisation is an urgent need in the country today.