

Chapter 6

PRICES AND WAGES

6.1 Overview

The intensity of the pressure on consumer prices, observed from mid 2000 to end 2001, abated gradually during 2002. Consumer price inflation, as measured by the annual average change in the official measure, the Colombo Consumers' Price Index (CCPI), was 9.6 per cent for 2002. This inflation rate, albeit high, marked the declining pressure on consumer prices during the year, when compared with the inflation rate of 14.2 per cent in 2001. The deceleration in the inflation rate during 2002 was brought about by the interaction of two factors which reinforced each other. First, the tight demand management policies pursued by the Central Bank during the year were successful in checking excessive growth in nominal demand which would otherwise have exerted upward pressure on the general price level. Second, improvements in supply conditions eased pressures on prices of essential items. The partial recovery in domestic production, especially in agriculture, and the decline in international prices of certain key consumer items, coupled with lower depreciation of the rupee, helped improve the supply of consumer goods and services which had suffered setbacks in the previous year. The implementation of the ceasefire agreement in February 2002 led to a relaxation of security barriers and of other restrictions

which had hindered transport and certain other economic activities throughout the country, and in the North and the East in particular. This, in turn, led to increased supplies of certain agricultural commodities and fish, which helped dampen the pressure on prices from other sources to a certain extent. The promotion of economic centres to facilitate distribution of agricultural commodities and arrangements made by groups of retail traders to get their supplies directly from the producing areas helped reduce distribution costs of such products, further reducing pressure on prices. These supply side developments helped reduce price fluctuations as well. Meanwhile, improved fiscal consolidation helped contain demand pull inflationary pressure. The upward pressure on prices during the year was further neutralised by minimal adjustments in nominal wages exceeding the growth in productivity, that usually resulted in a vicious wage-price spiral.

6.2 Prices

Overall price increases during the year were observed in both domestically produced consumer goods and services and imported consumer goods. The continued dominance of price increases of domestically produced consumer goods as determinants of inflation in Sri Lanka was indicated by their contribution of 11.2 percentage points of the average inflation of 14.2 per cent in 2001 and 7.3 percentage points of 9.6 per cent in 2002. Though the direct impact of imports on consumer prices was relatively low, their indirect impact through prices of intermediate imports, such as wheat grain, crude oil and gas, was significant in the recent past, including 2002. The impact of international price movements of petroleum products has been particularly significant. Generally, an increase in the price of crude oil has multiple effects on prices of domestically produced goods and services. As energy prices increase other prices are adjusted in several rounds in several degrees, while generally there is rigidity in downward adjustments with declines in international prices. An increase in wheat grain and gas prices is also followed by price adjustments of mainly prepared food, which has gained an increasing share in the average consumption basket, particularly among households in urban and suburban areas.

In the consumption basket of the average consumer in Sri Lanka, food takes the highest share of 60 to 70 per cent in different consumer price indices (CPIs). Accordingly, increases in the price of food items have a significant impact on consumer price inflation. In 2002, around 80 per cent of the

TABLE 6.1
Annual Average Price Changes (%)

Year	CCPI	GCPI	CDCPI	SLCPI	WPI	GNPD	GDPD
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	4.0	-0.3	4.4	4.4
2000	6.2	3.2	3.6	1.5	1.7	6.7	6.7
2001	14.2	11.0	10.3	12.1	11.7	12.4(a)	12.4(a)
2002	9.6	10.6	6.8	10.2	10.7	8.3(b)	8.3(b)

(a) Revised
(b) Provisional

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

overall increase in consumer expenditure, according to the CCPI, was attributed to higher prices of food items, while the balance was accounted for by increases in the prices of energy and energy related goods and services.

Among food items, rice has the highest share, ranging from 9 to 18 per cent among different CPIs. Open market prices of all main varieties of rice, Red Raw, Par Boiled and Samba, increased during 2002. The increases in the prices of rice, at high rates in 2002, despite the expansion in paddy production by around 6 per cent and increased imports of around twice the amount in 2001, may be due to higher demand. That higher demand was caused partly by the millers replenishing stocks which were depleted considerably during 2001, following the drop in production by around six per cent. There were also higher costs of processing and distribution with upward revisions of electricity and diesel prices. As imports are not perfect substitutes for some main varieties of rice, imports could have helped reduce the pressure on rice prices only to a limited extent.

Coconut is another main consumer item with a share ranging from 2 to 7 per cent. Coconut prices increased by around 70 per cent, higher than the increase of any other item in the indices. Production had dropped successively in 2001 and 2002, the drop in the latter being steeper than in any other year over the last 10 years. This drop was attributed to the lagged effects of the severe drought during the previous year and the accumulated impact of the gradual reduction in prime land under coconut cultivation, following the expansion of housing schemes and industrial parks. Unless effective measures are taken to minimise the depletion of prime coconut land and expand new cultivation with improved varieties that withstand drought conditions, price fluctuations as well as price increases for coconut cannot be expected to be contained significantly. Prices of most varieties of vegetables, leafy vegetables and fruits also increased during the year. Vegetable production dropped by around 2 per cent in 2002. Fish, another important item in the consumer basket with a representation of 4 to 10 per cent, was subject to low price increases. Production expanded by around 6 per cent in 2002 compared to the 4 per cent decline in the previous year. The output of fish increased with the removal of restrictions on entry to certain fishing areas, coupled with improved transport facilities, vital for perishable products such as fish. The ceasefire agreement made these developments feasible.

The impact of imported items on domestic prices emanates from both international price changes and the movements in the exchange rate. Price changes of imported items during 2002 were mixed, while the Sri Lanka rupee depreciated against the US Dollar, the main currency used for international transactions by Sri Lanka, at a lower rate of 3.7 per cent in 2002 compared to 11.3 per cent in 2001. This movement towards a stable exchange rate, helped reduce the impact of an important element of foreign pressure on domestic prices.

Among imported consumer items, increases in the price of milk powder were significant during the year. Despite efforts by private enterprises to expand the domestic production of milk and milk based products, a significant portion of the domestic consumption of milk and milk products is still met from imports. Domestic prices of most varieties of milk powder increased by around 10 per cent during the year. Increases in international prices of milk and milk products were the main contributory factor. Other imported consumer items whose international prices increased were red onions, potatoes, and dried chillies. International prices of rice, sugar and big onions decreased during the year. The price of sugar, which is an essential item in the consumption basket with a representative share of 3 to 5 per cent, dropped by around 5 per cent in the domestic market following the decline in international prices.

Among imported intermediate items, the prices of wheat grain, crude oil and liquified petroleum (LP) gas are important determinants of domestic consumer prices. Among them, the international price of wheat grain dropped, resulting in a drop in rupee import prices even after adjustments for currency depreciation. Despite this favourable development, the average domestic market price of wheat flour rose by around 17 per cent in 2002 following liberalisation of the import and distribution of wheat grain and wheat flour in late 2001 and the removal of the price subsidy on wheat flour following the rationalisation of prices to reflect their costs of production. This price adjustment resulted in price increases of bread, a main item in the consumption basket, by around 25 per cent. Prices of other bakery products also adjusted upward accordingly.

The impact of the price increases of crude oil on domestic prices was significant in 2002. Though the annual average import price of crude oil increased marginally in 2002, price increases towards the end of the year were significantly high. Petroleum prices, which are administered by the State, were rationalised in January 2002 by introducing pricing formulae to reflect costs of production. This move, along with price changes in the international market, led to changes in the price of petroleum products in several rounds. Domestic prices of petrol, diesel and kerosene were reduced marginally around the middle of the year following the decline in international prices. The effective period of these lower prices, however, was very short. International prices rose significantly during the latter part of 2002 mainly due to the increasingly tense situation in the Gulf region and political uncertainty in Venezuela, a major oil exporter. Those increases forced upward adjustments in domestic prices for diesel and kerosene. They exceeded the rate of mid year reductions and at year end the price of diesel was 13 per cent higher and the price of kerosene 38 per cent higher than to prices at end 2001. These price increases were followed by price adjustments in related sectors such as electricity and transport, except public transport. The price of petrol, however, was kept unchanged at the reduced level and on average, declined by 2 per cent. Gas is another imported item that affects consumer expenditure both directly and indirectly. Prices of LP

TABLE 6.2
Administered Price Revisions in 2002¹

Item	Unit	Price before Change	Price after Change	Absolute Change	% Change	Date of Revision
Cigarettes (Gold-leaf)	per Cigarette	7.00	7.50	0.50	7.14	14/02/02
Lion Lager Beer	625ml.	55.00	45.00	-10.00	-18.18	22/03/02
Coconut Arrack	750.ml.	285.00	280.00	-5.00	-1.75	27/03/02
Extra Special Arrack	750.ml.	245.00	241.00	-4.00	-1.63	27/03/02
Electricity (domestic)	Unit (0-30)	2.40	3.00	0.60	25.00	01/04/02
Electricity (domestic)	Unit (31-60)	2.90	4.00	1.10	37.93	01/04/02
Electricity (domestic)	Unit (61-90)	2.90	4.40	1.50	51.72	01/04/02
Electricity (domestic)	Unit (91-180)	5.50	10.60	5.10	92.73	01/04/02
Electricity (domestic)	Above 180 Unts.	7.20	15.80	8.60	119.44	01/04/02
Postal Charges -Normal Letter	1 Unit	3.50	4.50	1.00	28.57	25/04/02
Diesel	1 Ltr.	26.50	26.00	-0.50	-1.89	25/04/02
Diesel	1 Ltr.	26.00	28.00	2.00	7.69	23/04/02
Diesel	1 Ltr.	28.00	30.00	2.00	7.14	23/05/02
Diesel	1 Ltr.	30.00	30.50	0.50	1.67	22/06/02
Diesel	1 Ltr.	30.50	27.50	-3.00	-9.84	15/07/02
Diesel	1 Ltr.	27.50	28.00	0.50	1.82	15/08/02
Diesel	1 Ltr.	28.00	28.50	0.50	1.79	17/09/02
Diesel	1 Ltr.	28.50	30.00	1.50	5.26	16/10/02
Kerosene	1 Ltr.	17.40	19.40	2.00	11.49	23/04/02
Kerosene	1 Ltr.	19.40	20.90	1.50	7.73	22/05/02
Kerosene	1 Ltr.	20.90	21.30	0.40	1.91	22/06/02
Kerosene	1 Ltr.	21.30	20.50	-0.80	-3.76	15/07/02
Kerosene	1 Ltr.	20.50	20.40	-0.10	-0.49	01/08/02
Kerosene	1 Ltr.	20.40	21.00	0.60	2.94	15/08/02
Kerosene	1 Ltr.	21.00	22.00	1.00	4.76	17/09/02
Kerosene	1 Ltr.	22.00	24.00	2.00	9.09	16/10/02
Petrol	1 Ltr.	50.00	49.00	-1.00	-2.00	25/02/02
Petrol	1 Ltr.	49.00	50.00	1.00	2.04	23/03/02
Petrol	1 Ltr.	50.00	52.00	2.00	4.00	23/04/02
Petrol	1 Ltr.	52.00	54.00	2.00	3.85	23/05/02
Petrol	1 Ltr.	54.00	54.50	0.50	0.93	22/06/02
Petrol	1 Ltr.	54.50	47.50	-7.00	-12.84	15/07/02
Petrol	1 Ltr.	47.50	49.00	1.50	3.16	16/10/02
Furnace Oil(1000)	1 Ltr.	18.90	20.90	2.00	10.58	22/05/02
Furnace Oil(1000)	1 Ltr.	20.90	21.60	0.70	3.35	22/06/02
Furnace Oil(1000)	1 Ltr.	21.60	20.60	-1.00	-4.63	15/07/02
Furnace Oil(1000)	1 Ltr.	20.60	21.60	1.00	4.85	15/08/02
Furnace Oil(1000)	1 Ltr.	21.60	22.40	0.80	3.70	17/09/02
Furnace Oil(1000)	1 Ltr.	22.40	23.50	1.10	4.91	16/10/02
Furnace Oil(1000)	1 Ltr.	23.50	21.20	-2.30	-9.78	17/12/02
Furnace Oil(1500)	1 Ltr.	18.00	20.00	2.00	11.11	22/05/02
Furnace Oil(1500)	1 Ltr.	20.00	21.00	1.00	5.00	22/06/02
Furnace Oil(1500)	1 Ltr.	21.00	20.20	-0.80	-3.81	15/07/02
Furnace Oil(1500)	1 Ltr.	20.20	21.20	1.00	4.95	15/08/02
Furnace Oil(1500)	1 Ltr.	21.20	21.90	0.70	0.30	17/09/02
Furnace Oil(1500)	1 Ltr.	21.90	23.00	1.10	5.02	16/10/02
Furnace Oil(1500)	1 Ltr.	23.00	20.70	-2.30	-10	17/12/02
Furnace Oil(3500)	1 Ltr.	16.90	18.70	1.80	10.65	22/05/02
Furnace Oil(3500)	1 Ltr.	18.70	19.60	0.90	4.81	22/06/02
Furnace Oil(3500)	1 Ltr.	19.60	18.90	-0.70	-3.57	15/07/02
Furnace Oil(3500)	1 Ltr.	18.90	19.60	0.70	3.70	15/08/02
Furnace Oil(3500)	1 Ltr.	19.60	20.60	1.00	5.10	17/09/02
Furnace Oil(3500)	1 Ltr.	20.60	21.50	0.90	4.37	16/10/02
Furnace Oil(3500)	1 Ltr.	21.50	18.90	-2.60	-12.09	17/12/02
Water Tariff (Domestic)		40.00	50.00	10.00	25.00	01/06/02
Service Charge	1 - 10	1.00	1.25	0.25	25.00	01/06/02
Service Charge	First 10 Units	50.00	62.50	12.50	25.00	01/06/02
Service Charge	11 - 15	2.00	2.50	0.50	25.00	01/06/02
Service Charge	16 - 20	5.00	6.50	1.50	30.00	01/06/02
Service Charge	21 - 25	13.00	20.00	7.00	53.85	01/06/02
Service Charge	26 - 30	24.00	45.00	21.00	87.50	01/06/02
Service Charge	31 - 40	30.00	45.00	15.00	50.00	01/06/02
Service Charge	41 - 50	40.00	45.00	5.00	12.50	01/06/02
Service Charge	Above 50	45.00	45.00	0.00	0.00	

^{1/} Flexible pricing formulae to reflect cost of production were introduced for petroleum products in January 2002.

Source: Central Bank of Sri Lanka

gas increased by around 17 per cent in 2002. Upward revisions of gas prices were followed by price adjustments of prepared food, at different rates.

Although these supply side developments in the domestic economy and the external sector exerted upward pressure on prices, the tight demand management policies pursued by the Central Bank were able to prevent demand pull pressure on prices. Fiscal operations, though below expectations for 2002, showed marked improvement compared to the previous two years. The overall budget deficit as a percentage of GDP fell from 10.8 per cent in 2001 to 8.9 per cent, while the target for the year was 8.5 per cent, thereby preventing domestic expansionary borrowing. These improvements were achieved mainly through a reduction in both government capital and current expenditure and improvements in deficit financing and public debt management. Although the reduction in government expenditure has implications for both economic growth and employment generation, these moves helped contain inflationary pressure on domestic prices from fiscal operations. The improvements in fiscal operations could help maintain low inflation in the medium-term.

Monetary growth in 2002 at 13.4 per cent did not exert undue inflationary pressure on domestic prices. Reserve money, the principal operating target of monetary policy, was maintained within the targets set under the macroeconomic programme. The expansionary impact of the build up of foreign assets on monetary aggregates was averted by absorbing excess liquidity through open market operations, which became more voluminous and efficient during the year. Accordingly, demand management policies were used effectively to avoid additional pressure on domestic prices.

Consequently, rising consumer prices, albeit at a decelerating rate compared to price movements in the previous year, were reflected in the movements of all available CPIs with different geographical and expenditure group coverage. The official measure of the cost of living compiled by the government Department of Census and Statistics (DCS), the Colombo Consumers' Price Index (CCPI), marked a turning point from accelerating inflation from May 2000 till end 2001, to deceleration from January through November 2002. An alternative CPI compiled by DCS, yet rarely used for the analysis of price movements, the Greater Colombo Consumer Price Index (GCPI), rose by 10.6 per cent compared to 11 per cent in the previous year.

The Colombo District Consumer Price Index (CDCPI), compiled by the Central Bank of Sri Lanka (CBSL), which covers price movements in the Colombo District, registered an annual average change of 6.8 per cent. The corresponding change in the previous year was 10.3 per cent. Accordingly, the movements of the CDCPI confirm the deceleration of consumer price inflation during 2002. The regional price indices compiled by CBSL based on the price movements in Matara, Matale and Anuradhapura districts followed the changes in the Colombo based CPIs.

The newly introduced Sri Lanka Consumer Price Index (SLCPI) has the widest coverage and the most recent base year of any consumer price index in Sri Lanka. The SLCPI covers prices in the entire country except the Northern Province and a broader base of consumers up to the first eighty per cent of households by expenditure groups. SLCPI also declined since June 2002, reversing the earlier rising trend from June 2000 to May 2002. In terms of SLCPI, the annual average inflation rate during 2002 was 10.2 per cent.

The annual average change in the Wholesale Price Index (WPI), which captures price movements at the primary market level, was 10.7 per cent compared to 11.7 per cent in the previous year. The GDP and GNP deflators, which cover the price movements of all domestically produced goods and services had annual percentage increases of 8.3 per cent, compared with 12.4 per cent in 2001. Thus, other measures of price movements with broader coverage beyond consumer items confirmed the deceleration in inflationary forces during the reference year.

Colombo Consumers' Price Index (CCPI)

CCPI increased at an annual average rate of 9.6 per cent in 2002. The decelerating trend in consumer price inflation measured by this index since the beginning of the year continued up to November. This trend reversed the steady uphill trend observed throughout 2001. However, there was a marginal increase in December 2002. The point to point changes in the index, which measure the change in the index in any month compared to the value of the index in the corresponding month in the previous year, showed considerably lower increases in 2002 in all months except December. The point to point increases in 2002 ranged from 7.4 per cent to 11.4 per cent compared to a range of 10.8 per cent to 16.6 per cent in 2001. This measure also indicated that price pressure was lower throughout 2002.

Among the sub indices of the CCPI, the highest annual average change of 10.6 per cent was in the Food sub index. The corresponding increase in the previous year was 15.2 per cent. The annual average increase in the Fuel and light sub-index was on a continuous decline since the beginning of the year. This

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

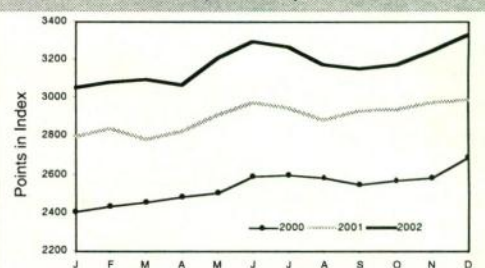


TABLE 6.3
Colombo Consumers' Price Index (1952 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change		Contribution to Increase in (%)	
		2001	2002	2001	2002	Dec-2001	Dec-2002	2001	2002
All items	100.0	2,899.4	3,176.4	14.2	9.6	10.8	11.3	100.0	100.0
Commoditywise									
Food	61.9	3,244.7	3,589.9	15.2	10.6	12.0	12.1	76.8	80.3
Clothing	9.4	909.6	950.5	4.2	4.5	5.1	3.9	1.0	1.4
Fuel and light	4.3	5,328.9	5,795.8	14.3	8.8	5.0	21.8	7.9	7.2
Rent	5.7	109.8	109.8	-	-	-	-	-	-
Miscellaneous	18.7	3,131.1	3,327.9	11.7	6.3	10.0	4.5	14.3	11.1

Source: Department of Census & Statistics.

was mainly due to the lower rate of increase in the price of kerosene in 2002 compared to 2001. However, with the successive administered price increases in kerosene during the latter part of the year, the annual increase was 8.8 per cent in 2002 compared with 14.3 per cent in 2001. The increase in the sub index for Miscellaneous items, which includes transport, health care, betel, arecanut, liquor and tobacco, indicated a pattern similar to the Food sub-index, which gradually declined throughout the year. The annual average increase in this sub-index was 6.3 per cent in 2002 as against 11.7 per cent in 2001.

The Food sub-index, which has a share of around 62 per cent in the representative consumer basket of the index, contributed to around 80 per cent of the overall price increase in 2002. The contribution of the sub-index in 2001 was around 77 per cent. The Fuel and light sub-index, which had contributed around 8 per cent of the increase in 2001, contributed 7 per cent in 2002. The sub-index for Miscellaneous items contributed around 11 per cent of the overall price increase in 2002, compared to 14 per cent in 2001. The two sub indices of Fuel and light and Miscellaneous items are relatively more sensitive to price changes emanating from the external sector as they include imported items such as

petroleum products and medicine. The Food sub-index is dominated by 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 contribution of the Clothing subindex to the overall price increase was marginal at 1 per cent. The Rent subindex did not have any impact, since it is historically fixed. The combined outcome resulted in lower inflation in 2002 than in 2001.

Greater Colombo Consumers' Price Index (GCPI)

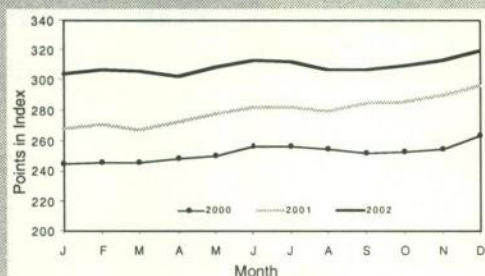
GCPI registered an annual average increase of 10.6 per cent in 2002 compared to 11 per cent in 2001. In contrast to the accelerating trend of GCPI in 2001, the movement of the index was generally stable throughout 2002. The annual average change continued its rising trend into the year 2002 till June but at a much lower rate, stabilised till September and then decelerated till year end. The Food and drink sub-index, with a share of around 69 per cent, however, increased by 11.9 per cent in 2002 compared to 11.3 per cent in 2001. The Personal care and health services, household goods and services sub-

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

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		2001	2002	2001	2002	Dec. 2001	Dec. 2002
All items	100.0	279.6	309.3	11.0	10.6	12.4	7.8
Commodity wise							
Food and drink	69.3	290.3	324.8	11.3	11.9	14.3	7.0
Liquor, tobacco							
betel and arecanut	3.8	433.2	448.2	9.4	3.5	2.6	3.5
Housing	8.9	110.4	110.5	0.2	0.2	0.2	0.1
Fuel and light	5.4	318.4	345.3	13.6	8.5	7.7	17.1
Clothing and footwear	2.8	261.6	268.3	4.3	2.6	3.4	2.3
Personal care and health services, household goods and services	4.9	300.1	357.0	12.5	19.0	17.0	20.7
Transport and communication	2.8	299.0	314.2	21.5	5.1	11.2	9.8
Miscellaneous	2.1	215.3	230.2	7.3	6.9	11.7	4.7

Source: Department of Census & Statistics.

Chart 6.2
Greater Colombo Consumers' Price Index
(Jan. to Jun. 1989 = 100)

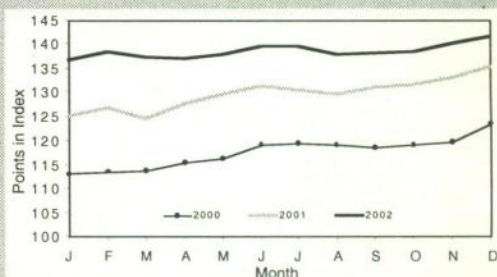


index which has a relatively lower weight, recorded the highest annual average increase of 19 per cent in 2002. The Transport and communications subindex increased at a considerably lower rate of 5.1 per cent during 2002, in comparison to the 21.5 per cent in the previous year, mainly due to the impact of lower petrol prices and the lower rate of increase in bus fares during the year compared to 2001. The sub-indices on Fuel and light and Liquor, tobacco, betel and arecanut indicated similar patterns of behaviour for reasons similar to those discussed for the CCPI, where the increases were significantly lower than in 2001. Further, the sub-indices of Miscellaneous items and Clothing and footwear too registered relatively lower increases in their annual averages in 2002 than in 2001. The Housing sub-index, which has a fairly high share of around 9 per cent, did not have any significant price increase in either 2001 or 2002. The increase in this sub-index was marginal.

Colombo District Consumer Price Index (CDCPI)

The rising trend in the annual average change in the CDCPI in 2001 reversed itself from the beginning of 2002 and the rate steadily declined throughout the year to reach an annual average increase of 6.8 per cent for 2002. It was 10.3 per cent

Chart 6.3
Colombo District Consumer Price Index
(Oct 1996 - Sep 1997 = 100)



in 2001. The Food sub-index, changes in which are more closely linked to the vagaries of domestic supply, increased by 9.1 per cent, lower than the 11.8 per cent increase in the previous year. As with the CCPI and GCPI, annual average increases in most of the sub-indices, in general, were lower in 2002, than in 2001, except in the Miscellaneous items sub-index. The upward revision during the year of the prices of consumer products such as soap, detergents and other personal care items included under miscellaneous items was the main reason for this change. Meanwhile, the Fuel and light and Liquor, tobacco, betel and arecanut and Transport sub-indices increased at much lower rates than other sub-indices. Consequently, their contributions to the overall price increase were lower in 2002. The contribution of the Food sub-index, (which has a share of around 59 per cent), to the overall price increase was higher at 78 per cent when compared to the contribution of 66 per cent in the previous year.

Sri Lanka Consumers' Price Index (SLCPI)

The current official consumer price index, the CCPI, and other published CPIs are limited in their degree of representation of average consumer behaviour under changing consumer patterns. All these CPIs cover only low income households 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 (%)	
		2001	2002	2001	2002	Dec. 2001	Dec. 2002	2001	2002
All items	100.0	129.7	138.5	10.3	6.8	9.7	4.5	100.0	100.0
Commodity wise									
Food and drink	58.7	129.4	141.2	11.8	9.1	12.9	4.4	66.2	78.0
Housing	13.2	113.3	113.6	0.9	0.2	0.3	0.2	1.1	0.4
Fuel and light	4.9	160.6	169.6	16.1	5.6	9.1	11.9	9.0	5.0
Clothing and footwear	6.2	113.6	117.3	5.2	3.2	4.4	2.6	2.9	2.6
Liquor, tobacco and betel and arecanut	4.4	167.6	171.2	10.1	2.2	-0.2	7.9	5.6	1.8
Personal care and health services	3.8	129.8	138.1	9.8	6.4	7.3	5.3	3.7	3.6
Transport	3.7	139.6	141.9	17.5	1.6	11.5	1.9	6.3	3.9
Education and recreation	2.8	121.9	134.5	14.5	10.3	14.6	8.9	3.5	0.9
Miscellaneous	2.3	127.6	145.0	8.0	13.7	17.8	3.2	1.7	3.7

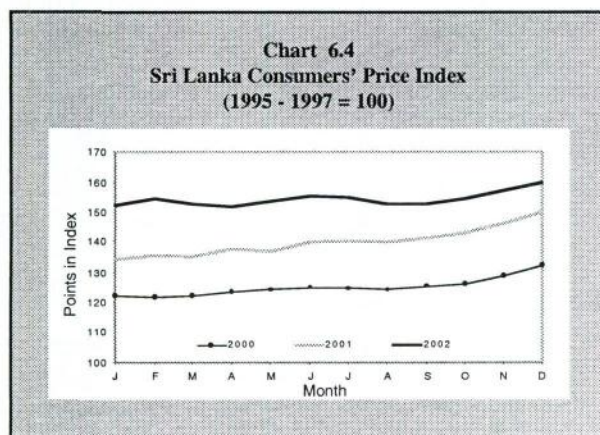
Source: Central Bank of Sri Lanka

TABLE 6.6
Sri Lanka Consumers' Price Index (1995 - 1997 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		2001	2002	2001	2002	Dec. 2001	Dec. 2002
All items	100.0	140.1	154.4	12.1	10.2	13.4	6.6
Commodity -wise							
Food, beverages and tobacco	71.2	139.2	153.3	12.1	10.1	13.5	5.6
Clothing and footwear	4.1	119.9	131.4	3.7	9.6	4.9	10.6
Housing, water electricity, gas and other fuels	13.1	136.9	147.5	11.5	7.7	13.8	6.9
Furnishing, household equipment and routine maintenance of the House	2.1	132.7	149.1	15.4	12.3	20.6	6.8
Health	2.4	192.8	238.1	12.4	23.5	13.6	22.3
Transport	2.9	160.8	166.7	19.9	3.7	10.9	6.9
Leisure, entertainment and culture	0.8	130.7	136.9	4.2	4.7	13.4	0.0
Education	1.3	147.5	163.7	8.5	11.0	9.2	9.1
Miscellaneous goods and services	2.1	147.9	169.3	19.2	14.5	5.7	12.0

Source: Department of Census & Statistics.

very limited geographical areas. In order to overcome such weaknesses, the Department of Census and Statistics (DCS) introduced the Sri Lanka Consumers' Price Index (SLCPI) on a trial basis for one year in early 2002 with the objective of compiling an index with a wider geographical and expenditure group coverage of consumption patterns. This index covers the consumption basket of households in the entire country except the North and the East, reflects price changes in the entire country excluding the North and all expenditure groups excluding the upper 20 per cent.



The movements of SLCPI were consistent with movements in the other CPIs, confirming deceleration in inflation during 2002. Somewhat lower country wide inflation in 2002 was marked by SLCPI, with a lower annual average increase of 10.2 per cent compared to the 12.1 per cent in 2001. The increase in the overall index was mainly due to the increase by 10.1 per cent of the subindex for Food, beverages and tobacco, which has the highest share of 71 per cent. The increase in the food sub-index in 2001 was 12.1 per cent. The Housing, water, gas and other fuels sub-index with the next highest share of 13.1 per cent, registered an annual average

increase of 7.7 per cent, lower than the corresponding increase of 11.5 per cent in the previous year. Other sub-indices which have representative shares of less than 5 per cent increased at rates between 4 and 24 per cent.

Wholesale Price Index

The Wholesale Price Index (WPI) measures price movements at the primary market level. They are captured under 13 sub indices, each covering a major category of goods. Similar to CPIs, the WPI too is influenced by movements in food prices, due to that sub category's dominance with a share of around 68 per cent. Price movements are also measured under two different sector-wise classifications based on the direction and the nature of use. The direction-wise classification consists of three sub-indices for goods produced for domestic use, imports and exports, respectively. The domestic group is dominant with a share of around 50 per cent. Imports and exports represent around 27 and 23 per cent, respectively. The use-wise classification consists of three sub-indices for consumer goods, intermediate goods and investment goods. Consumer goods represent around 75 per cent, while intermediate goods and investment goods have shares of 21 per cent and 4 per cent, respectively.

The annual average change in the WPI in 2002 was 10.7 compared to 11.7 in 2001, again confirming deceleration in price changes. However, the Food category, which includes food items for both domestic consumption and export and has a share of around 68 per cent, rose by 13.7 per cent, marginally higher than the 13.1 per cent in 2001. The higher auction prices of coconut and tea under all three elevational categories and price increases in some other categories contributed to this deviation in trend in the movement of the overall index during the year. The Petroleum products subindex, which has the next highest share of around 6 per cent, registered an annual average increase of around 5 per cent, compared to around 23 per cent in the previous year. The Chemical and chemical products sub-

TABLE 6.7
Wholesale Price Index (1974 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		2001	2002(a)	2001	2002	Dec. 2001	Dec. 2002
All items	100.0	1,471.2	1,629.0	11.7	10.7	14.7	7.9
Commodity wise							
Food	67.8	1,343.1	1,526.5	13.1	13.7	19.7	6.1
Alcoholic drinks	2.9	1,881.5	1,896.7	7.5	0.8	5.6	-0.6
Textile and footwear	4.0	642.4	645.0	1.5	0.4	1.5	0.2
Paper products	1.4	1,109.6	1,109.6	5.7	-	-	-
Chemicals and chemical products	5.2	926.8	1,007.1	11.9	8.7	14.6	12.4
Petroleum products	6.4	2,277.2	2,395.4	22.5	5.2	9.1	13.1
Non metallic products	1.8	2,865.1	2,942.6	3.7	2.7	2.9	11.1
Metal products	0.9	795.5	820.9	4.2	3.2	2.0	9.7
Transport equipment	0.8	1,015.3	977.4	10.7	-3.7	4.0	-0.8
Electrical appliances and supplies	1.0	953.4	1,006.7	12.3	5.6	11.4	-1.4
Machinery	1.3	747.4	815.7	10.0	9.1	17.1	6.0
Fuel and light	1.8	2,929.4	2,998.1	2.7	2.3	2.8	11.2
Miscellaneous	4.8	2,796.3	3,156.1	4.1	12.9	6.4	18.3
Sectorwise No. I							
Domestic group	50.3	1,305.0	1,373.1	11.0	5.2	4.8	7.0
Import group	27.2	1,222.9	1,244.5	17.1	1.8	5.2	13.0
Export group	22.5	2,142.0	2,664.7	9.2	24.4	35.9	6.1
Sectorwise No. II							
Consumer goods	75.3	1,418.5	1,594.1	12.1	12.4	17.8	5.8
Intermediate goods	20.5	1,640.6	1,752.8	12.0	6.8	6.7	14.7
Investment goods	4.2	1,589.3	1,649.8	4.7	3.8	5.1	10.4

Source: Central Bank of Sri Lanka

index with a share of around 5 per cent registered an annual increase of around 9 per cent compared to 12 per cent the previous year. All other sub-indices with shares of less than 4 per cent, except the Miscellaneous category, registered lower annual average increases than in 2001. The Miscellaneous category sub-index with a share of around 5 per cent increased by 13 per cent, compared to around 4 per cent in 2001, due to the increase in the price of rubber by around 25 per cent and at considerably higher rates in minor export crops under this sub-category.

Under the direction-wise classification, prices of the domestic group and the import group increased by around 5 per cent and 2 per cent, respectively, in 2002, compared to increases of 11 per cent and 17 per cent in 2001. Prices of the export group, in contrast, increased by around 24 per cent compared to around 9 per cent in 2001. In this group, the auction price of coconut, coconut oil and rubber increased, along with the price of tea and minor export crops. According to the usage classification, prices of consumer goods increased at an annual average of around 12 per cent, the same as in 2001.

Region-wise Inflation Rates

The Central Bank measures consumer price movements in three different regions of the country through regional price indices, as all other available consumer price indices, with the exception of SLCPI, measure price movements in Colombo-centered geographical regions. Accordingly, three regional price indices, namely, the Anuradhapura District Consumer Price Index (APCPI), the Matale District Consumer Price Index (MLCPI) and the Matara District Consumer Price Index (MRCPI) are computed monthly to monitor such price movements. These price indices reflect 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 and inflation rates similar to the Colombo-based

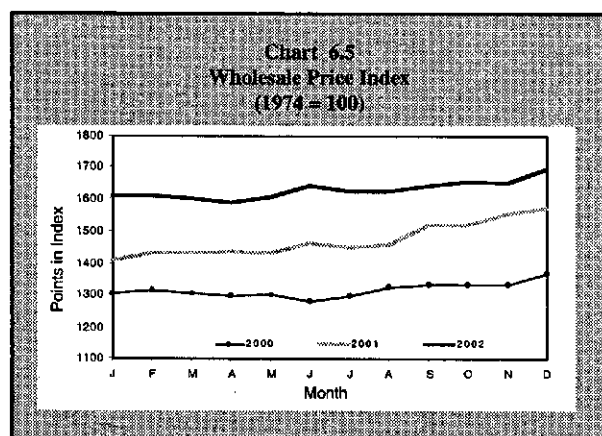
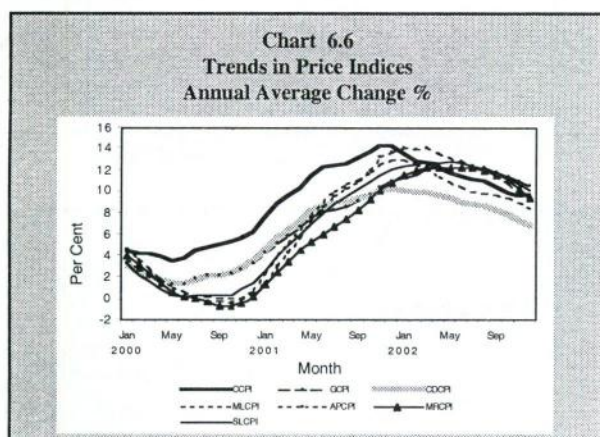


TABLE 6.8
District-wise Consumer Price Indices
(Oct.1996-Sep. 1997=100)

Item	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
	2001	2002	2001	2002	Dec. 2001	Dec. 2002
Colombo	129.7	138.5	10.3	6.8	9.7	4.5
Anuradhapura	131.0	143.1	13.7	9.2	14.0	6.6
Matale	127.8	138.5	13.0	8.4	12.7	6.2
Matara	127.1	139.1	10.9	9.4	14.1	3.6

Source: Central Bank of Sri Lanka



price indices as well as SLCPI. Rates were lower in 2002 when compared to 2001. APCPI, MLCPI and MRCPI registered annual average increases of 9.2 per cent, 8.4 per cent and 9.4 per cent, respectively, in comparison to 13.7, 13 and 10.9 per cent in 2001.

Regional Price Variations

Variations in prices among regions exist due mainly to the availability of goods and their quality differences. Price

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

Item	Unit	2001 (Rs)	2002(b) (Rs)	% Change 2002(b)
Rice (ordinary par boiled)	Kg.	25.98	29.39	13.1
Bread, 450 g.	Loaf	8.95	11.16	24.7
Eggs (ordinary)	Each	4.47	4.84	8.3
Coconut (medium size)	Nut	8.51	14.3	68.0
Vegetables				
Bitter gourd	Kg.	38.78	40.58	4.6
Cabbages	"	35.15	37.85	7.7
Green beans	"	46.07	49.68	7.8
Leeks	"	38.46	45.66	18.7
Potatoes (Local)	"	63.29	62.99	-0.5
Red onions (Medium)	"	67.38	59.87	-11.1
Dried chillies (Gr. I)	"	134.86	138.75	2.9
Sea Fish				
Kelawalla	Kg.	200.47	205.14	2.3
Mullet	"	154.34	159.18	3.1
Hurulla	"	103.03	105.03	1.9
Salaya	"	64.67	68.9	6.5

(a) Annual Average of weekly prices from 93 centres under CWDCS

(b) Provisional

Source: Central Bank of Sri Lanka

variations measured by the differences between the two main central markets, Colombo and Dambulla, and other main markets, Kandy, Matara and Anuradhapura, revealed that, as

TABLE 6.10
Average Retail Prices of Selected Food Items in Selected Markets in 2001 and 2002^(a)

(Rs./kg.)

Item	Colombo		Kandy		Matara		Anuradhapura		Dambulla	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Samba rice	34.60	39.06	34.60	38.85	33.60	37.63	31.08	33.29	30.56	34.83
Kekulu rice	28.24	34.93	26.79	33.42	24.77	30.24	26.37	30.94	25.28	33.26
Beans	50.91	54.26	46.85	55.73	47.35	51.24	45.15	55.47	45.76	51.78
Cabbages	39.33	40.23	34.07	37.70	37.12	39.45	33.22	37.65	34.05	37.78
Brinjals	39.30	40.73	31.77	36.63	26.15	28.66	24.87	31.11	30.26	32.13
Pumpkins	31.10	25.39	34.77	27.99	31.37	27.21	25.74	24.14	28.76	24.23
Red onions	66.58	60.43	74.55	65.63	67.48	62.11	68.37	65.67	71.05	65.09
Big onions	32.97	30.41	39.65	32.63	36.86	31.13	38.36	32.18	40.13	32.77
Potatoes	50.23	53.16	57.04	53.85	56.78	58.24	56.69	51.78	58.34	58.06
Dried chillies	129.94	132.73	138.38	142.25	136.83	141.15	142.21	133.46	132.70	134.38
Kelawalla	209.12	189.63	239.01	236.54	232.25	220.50	247.76	256.94	163.92	203.89
Hurulla	81.97	92.73	112.54	121.33	62.14	89.53	116.67	104.13	97.45	108.90
Eggs (each)	3.67	4.26	3.97	4.65	4.56	5.07	4.04	4.22	4.20	4.81
Coconut (each)	12.57	17.10	11.25	17.38	11.10	19.79	10.18	15.85	9.59	15.42

(a) Provisional

Source: Central Bank of Sri Lanka

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	-0.55	-3.67	-14.77	-10.84	11.54	8.05	-4.40
Kekulu rice	-4.32	-13.41	-11.41	-4.77	0.48	-9.07	-6.97
Beans	2.70	-5.57	2.22	-4.57	7.61	-1.05	7.12
Cabbages	-6.28	-1.93	-6.41	-6.09	-0.20	4.43	-0.34
Brinjals	-10.06	-29.64	-23.62	-21.10	14.00	-10.81	-3.18
Pumpkins	10.24	7.15	-4.92	-4.59	15.55	12.32	-0.34
Red onions	8.62	2.79	8.68	7.72	0.84	-4.58	0.90
Big onions	7.30	2.39	5.82	7.76	-0.42	-4.98	-1.79
Potatoes	1.30	9.57	-2.59	9.22	-7.25	0.32	-10.82
Dried chillies	7.17	6.34	0.55	1.24	5.86	5.04	-0.68
Kelawalla	24.74	16.28	35.50	7.52	16.01	8.15	26.02
Hurulla	30.85	-3.45	12.29	17.44	11.42	-17.78	-4.38
Eggs (each)	8.97	18.85	-1.02	12.89	-3.47	5.29	-12.32
Coconut (each)	1.66	15.74	-7.29	-9.79	12.68	28.30	2.77

(a) Provisional

Source: Central Bank of Sri Lanka

Chart 6.7
Monthly Prices of Selected Commodities

Chart 6.7.1
Kekulu Rice - Red

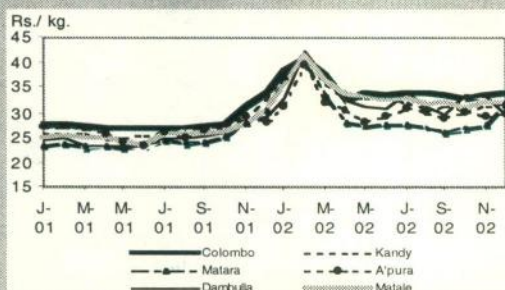


Chart 6.7.2
Coconut

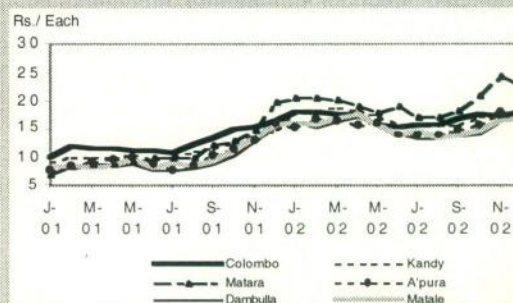


Chart 6.7.3
Green Beans

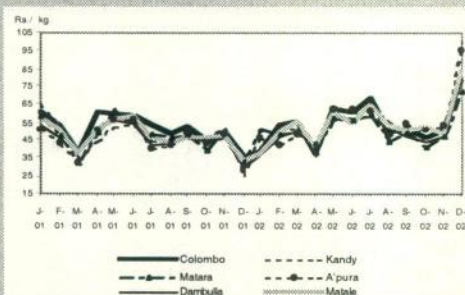
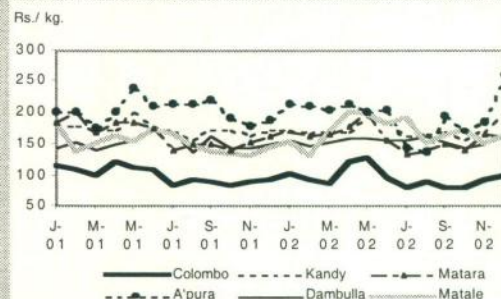


Chart 6.7.4
Fish - Balaya



Box 12

Celebrating 25 Years of the Country Wide Data Collection System

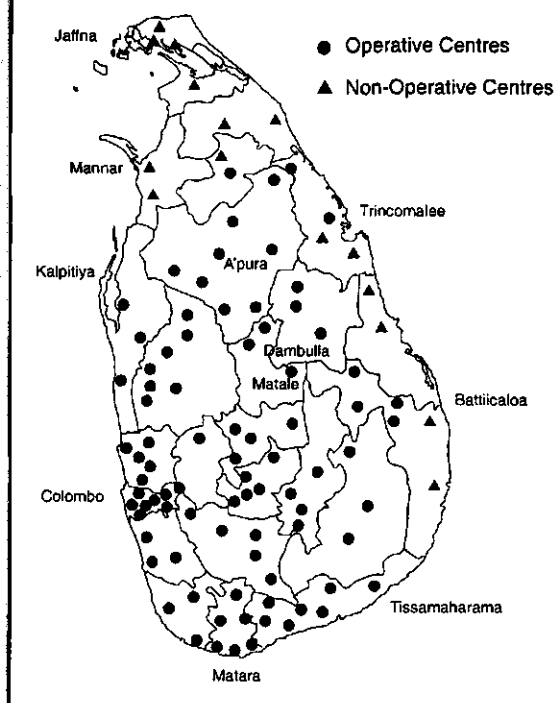
1. Introduction

In a free market economy, prices reflect the conditions prevailing in the market place. Hence, the timely availability of reliable information on price movements is of vital importance for economic agents to plan their desired consumption and investment in a changing environment and for policy makers to formulate appropriate policies and to evaluate their effectiveness, as well as to guide their future policy direction. Accordingly, the demand for such information in a market economy is high and always increasing. The Country Wide Data Collection System (CWDCS) of the Central Bank of Sri Lanka (CBSL) came into existence 25 years ago to meet such a demand.

CBSL introduced CWDCS in September 1978, almost immediately after the adoption of liberalised economic policies of a market economy. This year 2003 celebrates 25 years of operation of CWDCS, that have provided an uninterrupted series of very useful price and wage statistics for a multitude of purposes to the CBSL, as well as other economic agents.

From its inception, the design of CWDCS had a few special characteristics. As the cost of a country wide field programme with a staff dedicated only for field investigation was prohibitively high, an alternative field arrangement that reduced cost, while maintaining the quality and timeliness of information, was needed. Government school-teachers were selected for this task, as the nature of their duties allows them to devote part of their day for field investigation. Further, they were thought of as having the required discipline to be trained for this work, and to maintain the quality and timeliness of information without frequent, close supervision. Accordingly, at the inception, around one hundred school-teachers were appointed as field investigators to selected centers across the entire country with the approval of the Ministry of Education. This decision to outsource CBSL activities was a remarkable and unusual step at that time. In the selection of teachers, preference was given to those who taught economics or related subjects such as commerce and business studies. Since then, the CWDCS has continued uninterrupted, although some centres in the North and East became inoperative from the 1980s owing to difficulties in maintaining regular communication links under the adverse security situation that had prevailed in those areas. Currently, CWDCS comprises 93 teacher investigators across the country (Chart 1).

Chart I
Country-Wide Data Collection System
Distribution of Field Centres in 2002



2. Information Collected and Disseminated

The main purpose of CWDCS was to be a primary source of price and wage statistics that provided a database encompassing the entire country. Detailed schedules to record price and wage data have been revised, as needed, to capture changes in the market place during the past 25 years. Currently, information is collected through 7 broad questionnaires, sub-divided into relevant schedules. The frequencies of data collection range from weekly to quarterly depending on the price volatility of items in the respective schedules. Teacher investigators are expected to complete and return their schedules according to a strict time frame set by the Statistics Department at the beginning of each calendar year. Table 1 provides a summary of the type and frequency of statistics collected under CWDCS.

With the exception of about two years at the inception, data collected under CWDCS were processed electronically throughout. Recently, an advanced software package was designed in-house with the help of outsourced technical expertise, to process the data more efficiently and

Box 12 (contd.)

TABLE 1
Information Collected under CWDCS

	Category	No. of Variables	Frequency
	Retail Prices of Consumer Items	Items	
1	Food items with high price volatility	142	Weekly
2	Food and non food items with low price volatility	119	Monthly
3	Food and non food items with very low price volatility	162	Quarterly
	Producer and Input Prices	Items	
4	Items with high price volatility	37	Twice a Month
5	Items with low price volatility	155	Monthly
	Daily Wages in Informal Sector	Activities	
6	Agriculture Sector		Monthly
	Paddy	14	
	Coconut	10	
	Rubber	13	
	Tea	12	
7	Construction Sector		Monthly
	Masonry	4	
	Carpentry	4	

disseminate this information more quickly to meet user demand. At present, the edited data are available to users with a lag of five to six weeks.

Departments in CBSL, external organisations, both public and private, and researchers use CWDCS information. These data are used in the computation of consumer price indices, estimation of Private Consumption Expenditure (PCE) and calculation of sectoral deflators in the National Income estimates. The information is also routinely disseminated in aggregate and summary form to the public through the print and electronic media.

3. Supervision

Supervision is a monitoring tool that helps maintain standards in information systems. In order to maintain the quality and the timeliness of data collected under CWDCS, a strict supervision programme was initiated at the outset and maintained throughout these 25 years. Regional offices of the CBSL have provided much needed support services to the Statistics Department for this supervision programme since its inception.

3.1 Field Supervision

The CWDCS field supervision system combines two types of supervision, off site and on site. Under the off site supervision programme, accuracy and internal consistency of the data are routinely checked manually and electronically. Deficiencies in the information, if any, are brought to the notice of the investigators with instructions to correct them. More serious discrepancies are addressed through site-visits under the on-site supervision programme.

Under the annual on-site supervision programme, field supervision officers visit each investigator. These visits are

used to discuss price movements and also to instruct investigators on how to improve data collection. There have been instances where the operating investigators had been replaced with new ones in the event that the incumbents were found to be negligent. Currently the programme is designed for one routine visit per year to each centre by the field supervisors and more frequent visits in situations that warrant more frequent supervision.

3.2 Annual Regional Seminars

CWDCS initiated a seminar series for the field investigators in 1985, as it was important to maintain close rapport with the field investigators to enhance the quality and timeliness of information. At present, the Statistics Department conducts four routine regional seminars annually in Colombo, Matara, Kandy and Anuradhapura. Each teacher investigator participates in one seminar per year at the most convenient location to him/her among these four locations. These seminars are utilised to provide continuous training to field investigators, as well as to obtain their observations on price movements and contributory factors for the same. This information has been found to be extremely useful in analytical studies. A special session is devoted to a discussion on improving the quality of information. The seminars also provide an effective forum for the CBSL staff and investigators to discuss contemporary economic issues and to review the perceptions and expectations of the general public regarding prevailing economic conditions through these teacher investigators. The seminars and complimentary copies of CBSL publications help investigators to improve their knowledge too.

4. Current Status and Future Plans

At present, 93 centres of the 108 initially established under CWDCS are operative. A gradual deterioration of the security situation in the country, and in the North and the East in particular, and consequent inability of teachers in those centres to conduct their field investigations and dispatch the data safely and in time, led to 15 centers in the North and the East becoming non operative during the past 20 years. The Statistics Department hopes to reestablish these centres in the near future.

The gradual improvements to CWDCS over the past twenty five years have nurtured an invaluable group of teacher field investigators, some of whom have been with CWDCS from its inception. CWDCS now faces the challenge of identifying a new group of dedicated and enthusiastic teacher investigators following the gradual retirement of its existing members, to meet the information needs of the future.

in the past, price variations among regions existed during 2002 as well. They followed the usual pattern where perishable agricultural products and fish tend to have higher variations in price than other items. However, a general reduction in price variations was observed in 2002 compared to 2001. In 2002, there was a marked improvement in distribution, especially of agriculture commodities, due to the combined effects of the ceasefire agreement, promotion of economic centres to facilitate distribution and arrangements by retail traders to get their supplies directly from producing areas. These improvements were complemented by continuous expansion in the communications network and improvements in the awareness of price movements among consumers, traders and producers. Activities of various government institutions, including the Central Bank Regional Offices and private sector institutions, helped in the better dissemination of information. Despite these developments, perishable agricultural commodities are still handled using conventional methods, resulting in a significantly high level of wastage of vegetables and fruits in transit and at storage. Further, unlike in countries such as Thailand, limited food preserving activity during glut seasons to meet shortages during slack periods still contribute to considerable price fluctuations, along with changes in production. Improvements in these areas could lead to lower volatility and narrower margins in prices between producer and consumer regions.

6.3 Wages

Wage adjustments are an important cost-push factor in the determination of consumer price inflation. Minimal nominal wage adjustments in response to the rising cost of living, which averted a vicious spiral of price-wage adjustments, was a favourable development during 2002.

Movements in wages of employees in the formal sector are monitored through the wage rate indices computed monthly

for certain categories of public sector employees and the formal private sector employees governed by the Wages Boards Trades. Wage movements of informal sector employees are monitored though information collected for certain key categories of employment in the informal sector under the Country Wide Data Collection System (CWDCS) of the Central Bank.

Public Sector

There were no revisions in wages for public sector employees in 2002. However, as a result of nominal wage increases of between 19 per cent and 24 per cent in late 2001, all non-executive categories of government employees, including school teachers, enjoyed real wage increases in 2002 when compared with the average wage rates in 2001. Real wages are arrived at by deflating the nominal wage rate indices by the annual average inflation rate. Accordingly, real wage increases in 2002 ranged between 5 per cent and 8 per cent, with the highest rate of increase for the minor employee category.

Formal Private Sector

As with public sector employees, there were no general wage revisions for employees under Wages Boards Trades. However, employees in the 21 tea and rubber plantation companies were given a daily wage increase effective from 1 July 2002. This was in accordance with the collective agreement renegotiated at end-June 2002 between the Employers' Federation of Ceylon and the three main labour unions. Accordingly, the effective daily wage rate in the tea sector of Rs. 121, which consists of three components, namely, the daily wage, daily price share supplement and daily attendance incentive, was raised to Rs. 147. In the rubber sector, the effective daily wage of Rs. 112, consisting of the daily wage and daily attendance incentive, was raised to Rs. 131. These revisions in daily wages resulted in the agriculture

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

Employment Category	Nominal			Real			Percentage Change			
							Nominal		Real	
	2000	2001	2002(a)	2000	2001	2002(a)	2001	2002(a)	2001	2002(a)
1. Government employees										
Central government employees	1,084.7	1,310.8	1525.3	102.1	108.1	115.0	20.8	16.4	5.9	6.4
Non-executives	1,031.3	1,225.9	1410.5	97.1	101.1	106.3	18.9	15.1	4.1	5.2
Minor employees	1,125.8	1,388.2	1637.0	105.9	114.5	123.4	23.3	17.9	8.1	7.8
Government school teachers	865.1	1,026.8	1180.3	81.4	84.7	89.0	18.7	15.0	4.1	5.1
2. Workers in wages boards trades										
All wages boards trades	1,000.4	1,049.3	1126.5	94.3	86.6	84.9	4.9	7.4	-8.2	-2.0
Workers in agriculture	1,142.7	1,176.4	1269.6	107.7	97.1	95.6	2.9	7.9	-9.8	-1.5
Workers in industry and commerce	857.2	919.7	986.5	80.8	75.9	74.4	7.3	7.3	-6.1	-2.0
Workers in services	559.7	657.6	678.0	52.8	54.3	51.1	17.5	3.1	2.8	-5.9

(a) Provisional

Sources : Department of Labour
Central Bank of Sri Lanka

sector wage index and overall formal private sector wage index increasing by 14.4 per cent and 10.6 per cent, respectively, in July. However, the twelve month average of these two indices increased only by 7.9 per cent and 7.4 per cent in 2002 when compared to 2001. The twelve month average of the wage rate sub-indices for employees in Industry and Commerce, and Services increased by 7.3 per cent and 3.1 per cent, respectively, in 2002 over the previous year entirely due to wage increases in the second half of 2001. Accordingly, in contrast to the outcome in the public sector, workers governed by the Wages Boards Trades suffered real wage losses ranging from 2 to 6 per cent in 2002.

Informal Private Sector

Informal sector wages are determined in a more market oriented environment than formal sector wages. Rising costs of living, movements in the market prices of related products, particularly in the case of agriculture commodities, and general economic conditions usually influence the market conditions for wages in the informal sector. The wage information collected under the CWDCS of the Central Bank revealed that informal sector wages in agriculture and construction moved up during 2002. However, the rates of increase in daily wages of most of the sub-categories in these two sectors, when compared with the levels in 2001, were lower than the annual average inflation for the year. Within the agriculture sector, all male employee categories earned wage increases less than the inflation rate.

The rates of increase of nominal daily wages in the construction sector were around 8 to 9 per cent. In the agriculture sector, these increases were between 4 and 16 per cent. Accordingly, nominal wage increases in the agriculture sector varied more than in the construction sector. The diverse nature of activities among different sub-sectors in agriculture as well as the diversity among the different activities within a sub-sector could be the reasons for such variations. The construction sector, in general suffered real wage losses of between 1 and 2 per cent. In the agriculture sector, female employees in all major agriculture sub sectors, i.e. tea, rubber,

coconut and paddy, secured real wage increases, as their nominal daily wages increased by more than the annual average inflation rate. The highest nominal wage increase of around 16 per cent was earned by female tappers in the rubber sector. Rising international rubber prices, especially towards the second half of the year, encouraged more tapping and higher demand for labour, particularly for females due to their lower daily wages than for males with little difference in productivity. Those factors may have contributed to higher increases. Among male employees, the highest nominal wage increases of around 9 per cent were earned in tapping in the rubber sector and harvesting in the paddy sector.

Inflation in Sri Lanka has been high and volatile and highly sensitive to changes in food and fuel prices. The reliance on expansionary sources to finance the government budget deficit, as well as economically unwarranted nominal wage increases over-compensating for or disregarding productivity improvements, also contributed to high inflation in the past. The significance of improvements in the production and distribution of food items in checking both price increases and their volatility is becoming increasingly evident. Policies to lower and stabilise inflation in the future will require focus on those factors.

The introduction of a freely floating exchange rate and new measures to make open market operations more active have enhanced the effectiveness of monetary policy in maintaining liquidity at targeted levels. However, the deterioration of other factors affecting consumer prices can reduce the effectiveness of monetary policy in achieving price stability.

Accordingly, further fiscal consolidation, linking wage revisions to productivity while launching effective national programmes to raise productivity, further improvements in production and distribution of agriculture commodities and enhancing public awareness of the long-term adverse repercussions of ad hoc measures to control price increases in the short term, will play major roles in complementing monetary policy to achieve low and stable inflation in the future.