

Chapter 6

PRICES AND WAGES

6.1 Overview

Price developments throughout 2003 reflected continued moderation of price pressure and resulted in the projected single digit inflation, albeit even lower than expected, by the end of the year. The continued focus of monetary management on price stability reinforced by improvements in fiscal management, expansion in domestic production and improvements in transport and distribution of goods after the ceasefire all contributed to this outcome. A relatively stable external value of the rupee also contributed to the moderation of prices. Falling inflation throughout 2002, and signs of further moderation during early 2003, helped keep inflationary expectations low. Cost-push pressure on prices from wage adjustments was minimal during the year, as wages in the formal sector remained fairly stable, while only certain categories in the informal sector had significant increases in daily wages. The combined favourable impact of these multiple factors was reflected in the deceleration of the movement in all price indices.

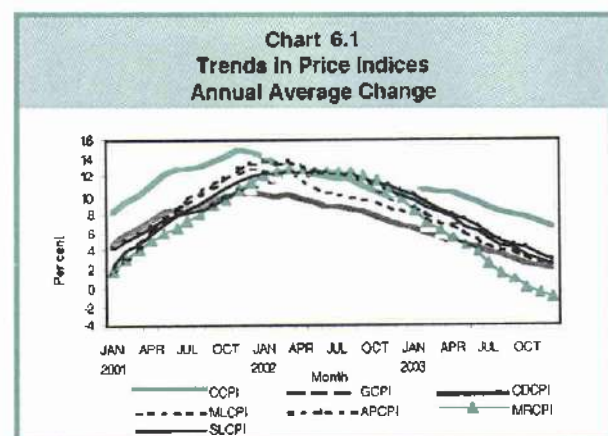
The Colombo Consumers' Price Index (CCPI), that measures price changes in the consumption basket of the lowest 40 per cent of households by their income in the Colombo Municipality and serves as the official measure of consumer price inflation, registered an annual average inflation rate of 6.3 per cent by end 2003, against 9.6 per cent in the previous year. Other available consumer price indices (CPIs) that represent consumption baskets in different geographical regions and expenditure groups registered annual average inflation rates of around 3 per cent or lower by end of the year. The Sri Lanka Consumers' Price Index (SLCPI), the most representative index available to measure consumer price changes at the national level, marked an annual average inflation rate of 2.6 per cent at end 2003.

Seasonal fluctuations in prices, especially of agricultural commodities, which represent a high aggregate share in all CPIs, indicated easing pressure through most of the year. This was reflected in the monthly changes in all CPIs in 2003 when

TABLE 6.1
Price Behaviour in 2002 and 2003

	Monthly Change %							Annual Average Change %						
	CCPI	GCPI	CDCPI	MLCPI	APCPI	MRCPI	SLCPI	CCPI	GCPI	CDCPI	MLCPI	APCPI	MRCPI	SLCPI
2002														
January	2.1	2.8	1.0	2.5	1.4	3.9	1.5	13.5	11.3	10.2	12.9	13.7	11.6	12.4
February	1.3	1.0	1.1	0.4	0.8	-0.3	1.2	12.8	11.6	10.0	12.6	13.7	12.0	12.6
March	0.5	-0.4	-0.8	-0.8	-1.0	-2.9	-1.1	12.7	12.1	10.0	12.2	13.9	12.3	12.8
April	-1.2	-1.2	-0.1	-1.5	-1.4	-0.1	-0.5	12.2	12.2	9.8	11.5	13.3	12.3	12.7
May	4.6	2.2	0.6	1.4	1.0	0.4	1.1	11.7	12.2	9.4	10.9	12.9	12.1	12.8
June	2.8	1.4	1.2	1.4	1.6	0.7	1.2	11.4	12.3	9.0	10.4	12.6	12.2	12.7
July	-0.8	-0.3	-0.1	0.6	-1.0	-0.4	-0.3	11.1	12.3	8.8	10.1	12.3	12.1	12.4
August	-2.7	-1.7	-1.1	-0.4	-1.3	-1.1	-1.3	11.0	12.3	8.6	9.9	11.9	12.0	12.1
September	-0.8	-0.1	0.3	0.1	0.1	-0.4	-0.2	10.4	11.9	8.2	9.6	11.4	11.6	11.7
October	0.8	0.8	0.2	0.6	1.4	1.1	1.2	9.9	11.5	7.8	9.4	10.7	11.2	11.2
November	2.0	1.2	1.1	0.3	3.0	1.3	1.9	9.5	11.0	7.3	8.9	9.8	10.3	10.7
December	2.5	1.9	1.1	1.5	1.9	1.4	1.7	9.6	10.6	6.8	8.4	9.2	9.4	10.2
2003														
January	4.2	2.2	1.7	3.0	1.4	1.2	2.1	10.0	10.1	6.5	8.0	8.6	8.1	9.6
February	-1.1	-0.9	-0.1	-2.4	-1.1	-0.7	-0.6	10.2	9.4	6.1	7.4	7.9	6.8	8.9
March	-2.3	-1.5	-1.5	-0.6	-1.9	-2.0	-2.2	9.9	8.5	5.5	6.9	7.0	5.9	8.2
April	-0.8	-0.3	-0.3	0.6	-0.6	-1.4	-1.1	9.9	8.0	5.1	6.9	6.7	5.1	7.6
May	2.4	1.3	0.1	-0.8	-1.4	-0.1	0.5	9.5	7.4	4.8	6.6	6.0	4.3	6.8
June	1.3	0.5	0.5	0.8	0.5	0.3	0.5	9.0	6.7	4.4	6.2	5.3	3.5	6.1
July	-1.8	-1.6	-1.3	-2.8	-0.9	-3.2	-1.1	8.3	5.9	3.9	5.4	4.6	2.4	5.4
August	-2.5	-1.4	-0.5	-0.2	-0.9	-0.5	-1.5	7.8	5.3	3.5	4.7	4.1	1.5	4.8
September	0.3	-0.4	-0.4	0.0	0.3	-0.9	-0.1	7.6	4.8	3.1	4.0	3.7	0.6	4.3
October	-0.1	-0.3	0.4	0.5	0.8	0.5	0.1	7.2	4.2	2.7	3.3	3.3	-0.3	3.6
November	2.6	1.8	1.6	2.6	2.9	3.7	2.5	6.8	3.6	2.4	3.0	2.9	-0.9	3.1
December	3.1	2.2	1.1	1.9	3.1	1.9	1.8	6.3	3.1	2.1	2.6	2.5	-1.3	2.6

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



compared with the average changes for corresponding months in the recent past.

Monetary management, focussed on maintaining price stability, prevented undue inflationary pressure emanating from aggregate demand. Monetary growth in 2003 averaged 13 per cent, although the end year growth was around 15 per cent. Significant improvements in fiscal consolidation supported the realisation of monetary objectives, and prevented pressure on prices through aggregate demand. The budget deficit fell to 7.9 per cent of GDP in 2003, from 8.9 per cent in 2002. Much of the deficit was financed from non-inflationary sources and net credit to the government from the banking sector declined during the year. A relatively stable exchange rate also contributed towards achieving price stability by minimising inflationary pressure from imported prices through depreciation.

Changes in the domestic production of major consumer items had contributed significantly to movements in consumer prices in the past. In 2003 however, the expansion in domestic production, especially of major consumer items, helped reduce prices. Agricultural production, which has a great impact on consumer prices, expanded by 2.9 per cent in 2003 compared to 1.9 per cent in 2002. Within the agriculture sector the production of major consumer items such as paddy and coconut rose. Improvements in the distribution network, due to the improved security situation and the establishment of regional economic centres, further strengthened the favourable effects of production expansion and helped to lower the domestic pressures on prices.

Imported items directly represent around 22 per cent of the CCPI and around 18 per cent of the SLCPI and their price movements are another important determinant of overall inflation. The overall impact from import prices is relatively higher, as price increases of intermediate imports, such as crude oil, wheat grain and fertiliser, indirectly influence the overall price structure through cost of production and transport costs. Higher import prices, through the combined impact of higher international prices and greater depreciation of the rupee, had been major contributors to higher inflation in the past. The situation in 2003 was somewhat different. The Nominal

Effective Exchange Rate (NEER) Index, that reflects the nominal movement of the rupee vis a vis national currencies of trading partners and competitors, depreciated by around 6 per cent compared to the depreciation of around 7 per cent in 2002. However, more than 75 per cent of Sri Lanka's imports are denominated in US dollars and in 2003, the depreciation of the rupee against the US dollar was negligible, as against the corresponding depreciation of 3.7 per cent in 2002 and 11 per cent in 2001. Thus, rupee depreciation impacted minimally on import prices. Meanwhile, the movements in international prices of imported items were mixed during the year. There were, however, frequent revisions to domestic fuel prices to reflect international price changes throughout the year.

The combined impact was that, while the pressure on inflation from the prices of domestically produced goods declined, that from imported goods remained at the same level as in the previous year, thereby raising the relative share of direct imported price pressure on the inflation rate. As in the previous year, wage adjustments in both formal and informal sectors did not impose any significant pressure on prices.

The decrease in inflation in 2002 and 2003 was due to a number of favourable factors related to both aggregate demand and aggregate supply. The future sustainability of the low CPI inflation will depend on the continuation of such favourable factors. Upward revisions to public sector wages, which are likely to be followed by at least certain segments of the private sector, could trigger some demand pressure as well as cost-push pressure on prices. The expenses related to the forthcoming general and provincial elections can add to demand pressure, unless the new government commits itself to fiscal discipline. Any failure on that front would make monetary management difficult and maintenance of price

TABLE 6.2
Annual Average Price Changes (%)

YEAR	CCPI	GCPi	CDCPI	SLCPI	WPI	GNPD	GDPD
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	12.4
2002	9.6	10.8	6.8	10.2	10.7	8.4 (a)	8.4 (a)
2003	6.3	3.1	2.1	2.6	3.1	5.1 (b)	5.0 (b)

(a) Revised
(b) Provisional

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

stability all that more difficult. Instability in financial markets, due to the uncertain political environment, can affect the economy despite all the favourable advances made in macroeconomic fundamentals during 2003. Drought in certain parts of the country will affect both agricultural production and electricity generation, thereby directly leading to rising prices. Future movements in international prices, especially of energy, do not appear favourable to the Sri Lanka economy. Accordingly, it is likely that inflation would be higher in 2004 than in 2003. However, a moderate rise that contains inflation within a range of 4 to 6 per cent would ensure the price stability that would be required to maintain the medium term, macroeconomic targets set early in 2003.

6.2 Prices

Prices rose in 2003 at a much lower rate than in the previous two years. Of the overall annual average CCPI inflation of 14.2 per cent in 2001, around 79 per cent was directly due to price increases of domestically produced goods. The balance 21 per cent was from the price increases in imported goods. In 2002, in the overall inflation of 9.6 per cent, the direct contribution was around 76 per cent from domestic goods. In 2003 the contribution from the prices of domestically produced goods to the overall inflation of 6.3 per cent dropped to around 60 per cent. The balance 40 per cent was from imported items, particularly kerosene, wheat grain and milk products.

Among imported consumer items, prices in terms of US dollars increased for rice (28%), dried chillies (18%), wheat grain (14%), milk products (5%), and big onions (7%), while prices decreases were observed for potatoes (16%), red onion (16%), dried fish (7%) and sugar (5%). With the move to more market determined pricing mechanisms, adjustments were made to domestic prices in the market in response to movements in international prices, thereby reflecting their actual cost to the consumer.

Despite the significant international price increase of rice, there was little impact on domestic prices, as almost the entire consumption demand was met from increased domestic production. Sugar is a key consumer item with low price elasticity of demand. It represents a share of between 3 and 6 per cent in all available CPIs. The domestic retail price of sugar dropped by around 3 per cent islandwide, compared to 2002. Prices of milk products, an important consumer item, increased in the domestic market following international price increases. Prices of all brands of milk food increased within a range of 1 to 5 per cent during the year. Prices of other milk based imported products also increased. A significantly high share of domestic consumption of milk products is met by imports. Programmes to boost the dairy industry at household level have not yet been able to reduce the dependence on imports in meeting domestic demand.

Though consumer goods imports showed mixed behaviour in their price changes, all intermediate imports that affect consumer prices indirectly recorded price increases.

Crude oil, the most important intermediate import, which has both direct and indirect impact on consumer expenditure, registered a price increase of around 17 per cent in US dollar terms by end 2003, compared to only a 3 per cent increase in 2002. Domestic prices of petroleum products, diesel oil, kerosene and petrol, were revised several times during the year in response to changing international prices. Accordingly, diesel oil prices were revised six times, of which four were upward and two downward resulting in a net increase of around 7 per cent by year end. Kerosene prices were also revised with the same pattern of revisions as diesel to register a net increase of around 6 per cent by year end. The net increase in petrol prices was 8 per cent by the end of the year after seven revisions, of which two were downward revisions.

The direct impact of the price increases of these three petroleum products on consumer expenditure depends on the extent of their use. Accordingly, kerosene prices impact more on low income groups, especially rural families, as kerosene is a major source of lighting. The diesel price impacts on all segments of the society through transport costs of goods and public transport, while the petrol price impacts more on relatively higher income families through the cost of private transport. However, it is not possible to decompose price increases to isolate the impact of rising transport costs. Market sources reveal that the charges on transport of goods have been revised upward during 2003 at different rates. Certain transporters had increased their charges by between Re. 1 and Rs. 1.50 per kg. of high priced commodities such as potatoes and onions. Some other transporters had revised their charges on bundles of commodities in quantities of 45 kgs. and 65 kgs. within a range of Rs. 30 to Rs. 200. Charges vary according to the type of commodity and the distance of transport. Public transport fares, which are decided by the National Transport Commission (NTC) using a pricing formula, were raised in 2003 by 8 per cent on average. The electricity tariff is another item that can be affected by fuel prices, and in turn affects prices of items that use electricity as an input. However, despite revisions of diesel prices in several rounds in 2003, electricity tariffs were not revised, as increased hydro capacity in electricity generation helped compensate for the rising cost of thermal power generation. The hydro dependency ratio was 44 per cent in 2003 compared to 40 per cent in 2002.

Liquified Petroleum Gas (LPG) is another imported item that has both direct and indirect impact on consumer expenditure. Its importance as a source of energy for cooking is increasing fast, as the main traditional energy source for cooking, firewood, is dwindling in supply and consequently becoming more expensive. As a result, LPG consumption is increasing even in the rural sector. LPG prices were revised seven times during the year following movements in international prices. However, the net annual average change in the price was negligible, as prices which were raised significantly during the first quarter, were brought down during the second half of the year. Despite a marked agent

TABLE 6.3
Administered Price Revisions in 2003

Item	Unit	Price before Change	Price after Change	Absolute Change	% Change	Date of Revision
Cigarettes (Gold Leaf)	Per Cigarette	8.00	8.50	0.50	6.25	25/08/03
Cigarettes (Bristol)	Per Cigarette	6.50	7.00	0.50	7.69	25/08/03
Coconut Arrack	750.ml.	280.00	300.00	20.00	7.14	09/09/03
Extra Special Arrack	750.ml.	241.00	260.00	19.00	7.88	09/09/03
Diesel	1 Ltr.	30.00	31.50	1.50	5.00	13/02/03
Diesel	1 Ltr.	31.50	30.00	-1.50	-4.76	26/03/03
Diesel	1 Ltr.	30.00	31.50	1.50	5.00	05/09/03
Diesel	1 Ltr.	31.50	30.50	-1.00	-3.17	06/10/03
Diesel	1 Ltr.	30.50	31.00	0.50	1.64	11/11/03
Diesel	1 Ltr.	31.00	32.00	1.00	3.23	04/12/03
Kerosene	1 Ltr.	24.00	25.20	1.20	5.00	13/02/03
Kerosene	1 Ltr.	25.20	24.00	-1.20	-4.76	26/03/03
Kerosene	1 Ltr.	24.00	25.00	1.00	4.17	05/09/03
Kerosene	1 Ltr.	25.00	23.00	-2.00	-8.00	06/10/03
Kerosene	1 Ltr.	23.00	23.50	0.50	2.17	11/11/03
Kerosene	1 Ltr.	23.50	25.50	2.00	8.51	04/12/03
Petrol	1 Ltr.	49.00	51.00	2.00	4.08	13/02/03
Petrol	1 Ltr.	51.00	53.00	2.00	3.92	26/03/03
Petrol	1 Ltr.	53.00	54.00	1.00	1.89	25/04/03
Petrol	1 Ltr.	54.00	52.00	-2.00	-3.70	21/05/03
Petrol	1 Ltr.	52.00	54.00	2.00	3.85	05/09/03
Petrol	1 Ltr.	54.00	52.00	-2.00	-3.70	06/10/03
Petrol	1 Ltr.	52.00	53.00	1.00	1.92	11/11/03
Furnace Oil(1000)	1 Ltr	21.20	23.10	1.90	8.96	16/01/03
Furnace Oil(1000)	1 Ltr	23.10	25.10	2.00	8.66	13/02/03
Furnace Oil(1000)	1 Ltr	25.10	26.10	1.00	3.98	26/03/03
Furnace Oil(1000)	1 Ltr	26.10	24.10	-2.00	-7.66	21/05/03
Furnace Oil(1000)	1 Ltr	24.10	22.60	-1.50	-6.22	30/06/03
Furnace Oil(1000)	1 Ltr	22.60	24.40	1.80	7.96	07/08/03
Furnace Oil(1000)	1 Ltr	24.40	23.8	-0.60	-2.46	05/09/03
Furnace Oil(1000)	1 Ltr	23.80	22.60	-1.20	-5.04	06/10/03
Furnace Oil(1000)	1 Ltr	22.60	23.00	0.40	1.77	11/11/03
Furnace Oil(1000)	1 Ltr	23.00	23.20	0.20	0.87	04/12/03
Furnace Oil(1500)	1 Ltr	20.70	22.70	2.00	9.66	16/01/03
Furnace Oil(1500)	1 Ltr	22.70	24.70	2.00	8.81	13/02/03
Furnace Oil(1500)	1 Ltr	24.70	25.70	1.00	4.05	26/03/03
Furnace Oil(1500)	1 Ltr	25.70	23.70	-2.00	-7.78	21/05/03
Furnace Oil(1500)	1 Ltr	23.70	22.20	-1.50	-6.33	30/06/03
Furnace Oil(1500)	1 Ltr	22.20	24.20	2.00	9.01	07/08/03
Furnace Oil(1500)	1 Ltr	24.20	23.10	-1.10	-4.55	05/09/03
Furnace Oil(1500)	1 Ltr	23.10	21.80	-1.30	-5.63	06/10/03
Furnace Oil(1500)	1 Ltr	21.80	22.20	0.40	1.83	11/11/03
Furnace Oil(1500)	1 Ltr	22.20	22.30	0.10	0.45	04/12/03
Furnace Oil(3500)	1 Ltr	18.90	20.80	1.90	10.05	16/01/03
Furnace Oil(3500)	1 Ltr	20.80	22.80	2.00	9.62	13/02/03
Furnace Oil(3500)	1 Ltr	22.80	23.80	1.00	4.39	26/03/03
Furnace Oil(3500)	1 Ltr	23.80	21.80	-2.00	-8.40	21/05/03
Furnace Oil(3500)	1 Ltr	21.80	20.30	-1.50	-6.88	30/06/03
Furnace Oil(3500)	1 Ltr	20.30	22.30	2.00	9.85	07/08/03
Furnace Oil(3500)	1 Ltr	22.30	21.50	-0.80	-3.59	05/09/03
Furnace Oil(3500)	1 Ltr	21.50	20.30	-1.20	-5.58	06/10/03
Furnace Oil(3500)	1 Ltr	20.30	20.60	0.30	1.48	11/11/03
Furnace Oil(3500)	1 Ltr	20.60	20.70	0.10	0.49	04/12/03

Source: Central Bank of Sri Lanka

price per cylinder of LPG, consumers in various parts of the country pay different prices in excess of differences in transport costs, due to deficiencies in the agencies' distribution network. Vendors in rural areas buy LPG cylinders in small numbers from agents in major towns and retail them to consumers at higher prices, which sometimes amount to around Rs. 75 a cylinder above the agent's price. Prepared food, which is becoming a popular consumer item, was affected by these higher prices for LPG and recorded price increases during 2003. Increases varied within a range of 3 to 29 per cent islandwide. Though LPG prices dropped towards the end of the year, downward revisions in prepared food prices are less likely due to the generally widespread downward rigidity in price adjustments for such items.

Wheat grain, another important intermediate import item, registered a price increase of around 14 per cent in US dollar terms in 2003. Consequent price adjustments were observed in bread and other wheat flour based consumer products. Bread has a share ranging from 3 to 5 per cent in the expenditure patterns among different CPIs. After bread prices were allowed to adjust freely under market conditions, a wide range of prices for a loaf of bread has been observed, depending on quality and size. The price of an average sized loaf of bread increased by around 19 per cent in 2003.

The expansion in the domestic production of major food items helped reduce the pressure from increased prices of imports, mainly fuel and fuel related items. Rice and coconut were significant among such items. Rice represents a relatively high and varying share from 9 to 18 per cent among different CPIs; around 9 per cent in the CCPI and around 16 per cent in the SLCPI, with the highest share associated with the Anuradhapura CPI (APCPI). Retail prices of all varieties of rice decreased in 2003 within a range of around 3 to 13 per cent, where raw red rice had the highest and samba had the lowest drop in price. This was in contrast to the significant price increases for rice ranging from 12 to 23 per cent in 2002. The increased availability of rice due to the expansion in paddy production contributed to lower prices for rice. Coconut, which has a share ranging from 2 to 7 per cent in the CPIs, registered price declines from 8 to 11 per cent among different sized nuts. In 2002, coconut prices increased by around 63 to 73 per cent. The price of coconut oil dropped by around 15 per cent in 2003, in contrast to an increase in 2002 of around 40 per cent. Improved weather conditions towards the end of 2002 from a drought situation in 2001, contributed to increase coconut production by around 7 per cent and lower coconut prices in 2003. Most varieties of pulses, which have a relatively low share of around 1 per cent in the average consumption basket, registered price decreases in 2003 due to expansion in production.

Among other domestically produced consumer items, significant increases were observed in the prices of fish, meat, eggs, fresh milk and vegetables. Fish represents a share ranging from around 3 to 10 per cent in the average consumption basket

in different CPIs. Fish production dropped by around 6 per cent in 2003, as against an increase of around 6 per cent in 2002, resulting in significantly higher prices for almost all varieties of fish in 2003. Fish prices increased within a range of 3 to 11 per cent.

Health hazards related to meat consumption and increased awareness of their implications seem to have prompted a shift in demand from meat and meat products to fish. Consequently, the demand pressure has been mounting on already dwindling resources, driving up the prices of both marine and inland fish continuously. This demand pressure for fish could increase further in the future if recent problems faced by the poultry industry internationally affect the Sri Lankan market, as fish and poultry products are close substitutes. Accordingly, fish prices could continue to rise, unless immediate and effective measures are taken to increase supply through expansion in fish production and imports to meet the increasing demand. Prices of almost all varieties of inland fish also increased during the year in a range of 1 to 18 per cent. A large area under inland waters still remains unexploited for inland fishing. A well-planned programme to utilise this source can help meet part of the rising demand in the future.

Prices of all varieties of meat also increased in 2003. The increases ranged from around 7 per cent (pork) to around 13 per cent (mutton). Beef prices increased by around 10 per cent. Prices of all varieties of meat, except chicken, had increased by around 7 – 8 per cent in 2002, as well. The price of chicken increased by around 10 per cent in 2003, in contrast to the marginal drop in 2002. Egg prices increased by about 8 per cent in both 2002 and 2003. Fish prices rose in both 2002 and 2003. Prices of all brands of canned fish increased within a range of 8 to 11 per cent, following higher increases from 14 to 18 per cent in 2002. Dried fish, a close substitute for all types of fish and meat, also rose in price within a range of 10 to 20 per cent compared with 3 to 15 per cent increase in 2002. Fresh milk prices increased by around 14 per cent in 2003 following an increase of around 10 per cent in 2002.

As shown above, the prices of almost all major sources of animal protein have increased in the recent past, which could have long-term, but directly immeasurable, effects on the national nutrition level, with more adverse effects especially on low-income families. These negative effects on nutrition can have far-reaching repercussions on labour productivity and the national health care bill. An effective and consolidated approach is urgently required to address this potential problem.

Vegetables, which are mostly domestically produced and have a combined representation of 4 to 6 per cent in all CPIs, rose in price in 2003 over the previous year. Vegetable prices had risen in 2002 as well. Vegetable production during 2003 increased by around 4 per cent. The increased demand for vegetables with rising prices for both fish and meat could have resulted in these price increases. Although the international price of potatoes dropped by around 16 per cent in US dollar terms, domestic retail prices remained high at the 2002 level

due to the specific import duty of Rs. 20 per kg introduced to protect domestic potato farmers. As in previous years, prices of local potato remained above those of imported potato in 2003. The expansion of trading activities with increased movement of goods between the North and East and other areas of the country influenced both the demand and supply of goods in both areas. Agricultural commodities produced in areas which hitherto had no access to markets outside, were available at relatively lower prices after the ceasefire. At the same time, flows of certain vegetables to the North and East from other parts of the country exerted some pressure on prices and with access to new markets in the North and the East, prices of certain vegetables produced in other parts of the country did not drop to their historical low levels during harvesting seasons. The prices of subsidiary food crops other than potatoes, big onions, red onions and dried chillies, also increased by about 9 to 14 per cent due mainly to the drop in production by around 4 per cent.

Mixed trends were observed in the price movements of fruits. Certain imported fruits, which are freely available in the marketplace islandwide, registered price declines of between 10 per cent and 15 per cent, while prices of others increased marginally in 2003. Increasing competition in the imported fruit trade and a relatively stable rupee are given as reasons for these developments. Among major domestically produced fruits, prices of some varieties of banana fell, along with some seasonal fruits. Prices of almost all varieties of mango increased at rates ranging from 14 to 16 per cent. Due to expansion in production, prices of papaw and pineapples remained fairly stable in 2003, in contrast to higher increases of around 10 and 19 per cent, respectively, in 2002. Newly developed varieties of papaw with increased productivity are now available in the market.

One important observation regarding domestically produced fruits was the supply of substandard products.

Informal surveys both in producing areas and among retailers revealed widespread use of chemicals to ripen fruits as well as tomatoes plucked immaturely. The Consumer Protection Authority and others whose responsibility includes ensuring fair-trading practices and public health, seem ineffective. This situation could fuel another health hazard in a different form and is an area where further action is required without delay.

Despite repeated references made to the traditional and wasteful handling, storage, packaging and transportation of domestically produced perishable food items, no tangible improvements are observed yet. Improvements in productivity through high yielding varieties and improved and modern methods of production, which are taking place on a small scale, have to be expanded to maintain price stability over time.

Among non-food and non-fuel consumer items, most clothing items declined in price during the year. The market for clothing and apparel is flooded with supply due to intense competition and duty free imports. Almost all varieties of personal and health care items rose in price in both 2002 and 2003 mainly due to increases in the cost of production. Among services, medical consultation fees and private tuition fees also increased.

Regional Price Variations

Variations in price levels of the same item among different regions can exist consequent upon a variety of factors related to both demand and supply. Signs of narrower price variations were observed in the recent past with improvements in distribution channels, supported by expanded communication facilities and availability of timely market information. The demand for timely information from institutions and even from individuals is increasing. Price information has become an important item in media news updates. The establishment of new economic centres to strengthen the distribution network has also contributed to such improvements.

TABLE 6.4
Average Retail Prices of Selected Food Items in Selected Markets in 2003(a)

Item	Colombo	Kandy	Matara	Anuradhapura	Dambulla	Co-efficient of Variation *100		
	2003	2003	2003	2003	2003	2001	2002	2003
Samba rice	39.08	38.36	34.63	30.78	34.13	5.9	7.0	9.6
Kekulu rice	30.33	28.06	25.23	25.50	28.62	5.2	5.9	7.9
Beans	60.74	60.43	57.46	55.12	53.21	4.8	3.9	5.7
Cabbages	37.33	35.81	40.17	36.63	36.19	7.3	3.1	4.7
Brinjals	42.12	37.39	33.13	30.50	31.92	18.7	14.2	13.5
Pumpkins	21.95	25.63	22.48	25.48	21.38	11.0	6.8	8.6
Red onions	54.21	57.74	53.15	49.40	54.65	4.6	3.7	5.6
Big onions	31.95	37.44	32.51	34.70	38.01	7.7	3.2	7.9
Potatoes	47.93	53.48	55.04	50.53	54.61	5.7	5.4	5.8
Dried chillies	159.69	167.50	163.08	158.00	151.56	3.5	3.3	3.7
Kelawalla	197.29	245.75	242.33	290.63	219.92	15.4	12.0	14.5
Hurulla	99.07	124.88	104.78	118.75	109.78	23.9	12.4	9.3
Eggs(each)	4.54	4.99	5.50	4.55	5.19	8.0	7.9	8.4
Coconut (each)	15.06	15.76	15.86	14.60	14.52	10.4	10.0	4.1

(a) Provisional

Source: Central Bank of Sri Lanka

Chart 6.2
Monthly Prices of Selected Commodities

Chart 6.2.1
Kekulu Rice - Red

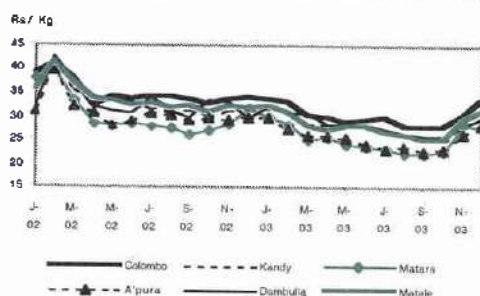


Chart 6.2.2
Coconut

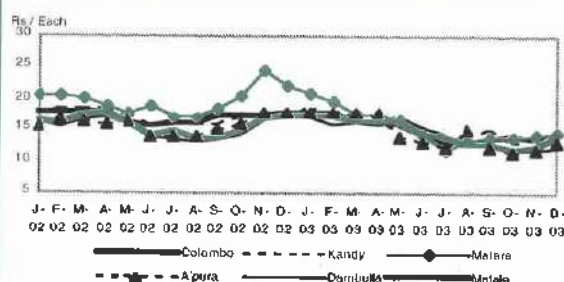


Chart 6.2.3
Green Beans

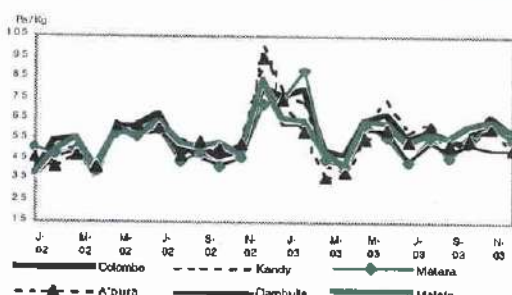
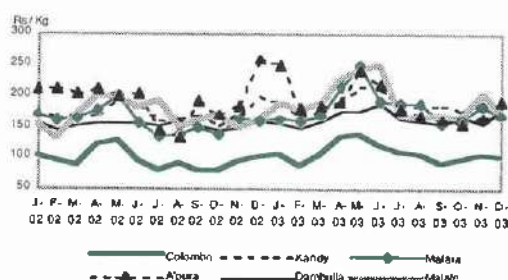


Chart 6.2.4
Fish - Balaya



For most major consumer items, the coefficient of variation (CV)¹ was less than 10 per cent and has been so over the last three years (2001, 2002 and 2003). In fact, the CV has been relatively stable for certain items, eg. beans (4% to 6%), potatoes (5% to 6%) dried chillies (3% to 4%) and eggs (8%). Some items indicated mixed changes in CV. Higher CVs were observed for items such as brinjals and some varieties of fish. Quality differences and market conditions may have contributed to such volatility. It may not be realistic at this juncture of Sri Lanka's market development to expect very low price variations for certain items since there are many aspects of their production, handling, transportation and storage that vary significantly across regions and need to be improved further to achieve price stability.

¹ The Coefficient of Variation (CV) is a statistical measure that measures the average variability of the values of a given item relative to its average value. Accordingly, a lower CV indicates less variability and vice versa. This statistic can be used to analyse relative price variations among the main markets.

Colombo Consumers' Price Index (CCPI)

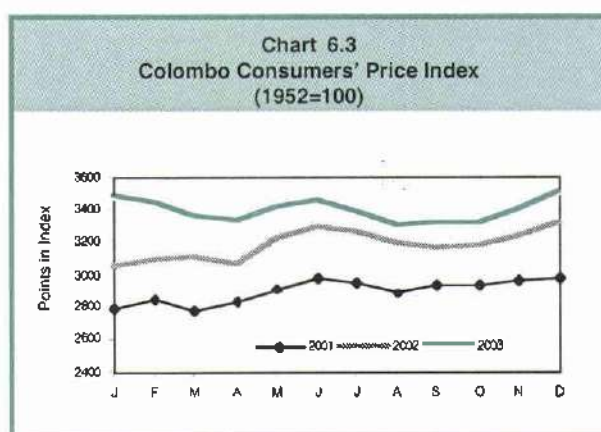
The general declining trend in the CCPI throughout 2002 continued during 2003, though with a marginal deviation in the months of January and February. Consequently, the CCPI registered a lower annual average inflation rate of 6.3 per cent during the year compared to 9.6 per cent in 2002. The change in the month to month index indicated declining pressure on prices. The degree of deceleration in the index, as indicated by the point to point changes (which measure the change in the index in any month compared to the value of the index in the corresponding month of the previous year), was greater in the second half of the year; the average point to point increase during the second half was 4.2 per cent compared to 8.6 per cent in the first half.

All sub indices of the CCPI, except Fuel and Light, registered lower annual average increases compared to their corresponding increases in the previous year. The Fuel and Light sub-index with a share of around 4 per cent of the CPI basket registered the highest annual average increase of around 15 per cent, following successive revisions to fuel prices during the year. The corresponding increase in this sub-index during

TABLE 6.5
Colombo Consumers' Price Index (1952 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change		Contribution to Increase (%)	
		2002	2003	2002	2003	Dec-2002	Dec-2003	2002	2003
All Items	100.0	3,176.4	3,377.0	9.6	6.3	11.3	5.0	100.0	100.0
Commoditywise									
Food	61.9	3,589.9	3,798.4	10.6	5.8	12.1	4.4	80.3	66.9
Clothing	9.4	950.5	974.4	4.5	2.5	3.9	1.1	1.4	1.1
Fuel and light	4.3	5,795.8	6,674.6	8.8	15.2	21.0	8.9	7.2	18.7
Rent	5.7	109.8	109.8	-	-	-	-	-	-
Miscellaneous	18.7	3,327.9	3,497.5	6.3	5.1	4.5	6.3	11.1	13.3

Source: Department of Census & Statistics.



2002 was around 9 per cent. Accordingly, the contribution of the Fuel and Light category to overall inflation based on the CCPI was around 19 per cent, while the corresponding contribution was around 7 per cent in 2002. The Food sub-index, which represents the highest share of around 62 per cent in the CPI basket, rose on average by about 6 per cent, compared to 11 per cent in 2002. The pressure from food prices was lower with a point to point increase of around 4 per cent in the Food sub-index during 2003 compared to around 12 per cent in the previous year. Consequently, the contribution of

food prices to the overall inflation fell to around 67 per cent in 2003 from around 80 per cent in the previous year. Accordingly, more than 85 per cent of the CCPI inflation in 2003 was attributed to the price increases of fuel and food items. The deceleration in food price increases mitigated the higher pressure from fuel prices to some extent. The Clothing sub-index, which has a share of around 9 per cent, increased by around 3 per cent. Both the point to point increase and the contribution to inflation from this sub index were around 1 per cent. The sub index on Miscellaneous items, with a relatively higher share of around 19 per cent in the overall CCPI basket including such items as transport, which are sensitive to energy prices, increased by around 5 per cent. This index also indicated somewhat higher pressure on prices with a point to point increase of around 6 per cent in 2003 compared to around 5 per cent in the previous year. The contribution of this sub sector to overall inflation was around 13 per cent in 2003 compared to around 11 per cent in the previous year.

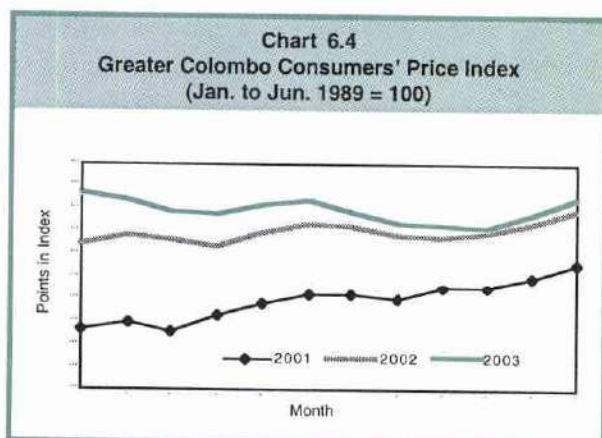
Greater Colombo Consumers' Price Index (GCPI)

The GCPI, an alternative measure of inflation, which takes into account consumption patterns of the lowest 40 per cent of expenditure groups, as well as price movements in the wider

TABLE 6.6
Greater Colombo Consumers' Price Index (January - June 1989 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		2002	2003	2002	2003	Dec. 2002	Dec. 2003
All items	100.0	309.3	319.0	10.6	3.1	7.8	1.6
Commodity wise							
Food and drink	69.3	324.8	330.4	11.9	1.7	7.0	0.3
Liquor, tobacco							
betel and arecanut	3.8	448.2	462.2	3.5	3.1	3.5	5.9
Housing	8.9	110.5	110.7	0.2	0.2	0.1	0.3
Fuel and light	5.4	345.3	390.6	8.5	13.1	17.1	8.3
Clothing and footwear	2.8	268.3	273.6	2.6	2.0	2.3	1.6
Personal care and health services, household goods and services	4.9	357.0	382.1	19.0	9.8	20.7	4.6
Transport and communication	2.8	314.2	340.3	5.1	8.3	9.8	7.6
Miscellaneous	2.1	230.2	239.3	6.9	3.9	4.7	2.1

Source: Department of Census & Statistics.



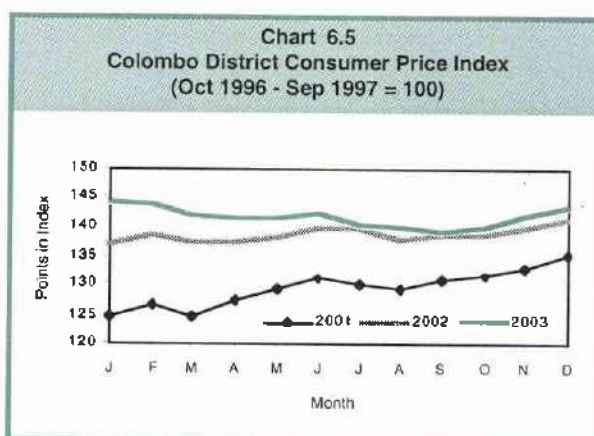
geographical area of Greater Colombo which extends beyond the Colombo Municipality, reflected price movements similar to the CCPI. The deceleration of price pressure was indicated by an annual average increase of around 3 per cent, compared to around 10 per cent in 2002. As in the case of the CCPI, the sub-index for Fuel and Light, with a share of around 5 per cent, registered the highest increase of around 13 per cent, which, when compared with the corresponding increase of around 9 per cent in 2002, indicated acceleration in price pressure on items covered by this sub-index. The movements of sub-indices of the GCPI indicated a similar pattern of change to that of the CCPI, where fuel and fuel related sub-indices increased at higher rates in 2003 than in 2002. The greater deceleration in food price increases that helped lower overall price pressure during 2003 was indicated by the food sub-index of the GCPI as well. The sub indices on personal care and household services and on miscellaneous items also indicated falling price pressure during the reference period, while housing prices (i.e., rent) remained fairly stable as usual.

Colombo District Consumer Price Index (CDCPI)

Similar to other CPIs, the rate of inflation measured by the CDCPI continued its decelerating trend throughout 2003 to

register an annual average inflation rate of around 2 per cent by the end of the year, in comparison to the corresponding rate of around 7 per cent at end 2002. The point to point changes too indicated a similar trend and were much lower than in 2002. The speed of deceleration in the index was greater in the second half of the year, where the average point to point increase was around 1 per cent when compared with around 3 per cent in the first half.

As in the case of the other two Colombo based CPIs, the CDCPI also confirmed that decelerating increases in food prices dampened the mounting pressure from acceleration in the price increases of fuel and fuel based consumer items. The movements of all sub indices of the CDCPI were similar to those of the other two indices.



Regional Price Indices

There are variations in price movements as well as in consumption patterns among different regions of the country. As such, the CPI inflation measured by the Colombo Municipality based official index, CCPI, may not necessarily always reflect price movements and resultant changes in the cost of living in different regions. In addition to the CDCPI, the Central Bank measures regional inflation through the

TABLE 6.7
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 (%)	
		2002	2003	2002	2003	Dec. 2002	Dec. 2003	2002	2003
All items	100.0	138.5	141.4	6.8	2.1	4.5	1.1	100.0	100.0
Commodity wise									
Food and drink	58.7	141.2	143.0	9.1	1.3	4.4	0.1	78.0	36.8
Housing	13.2	113.6	113.8	0.2	0.1	0.2	0.1	0.4	0.6
Fuel and light	4.9	169.6	183.6	5.8	8.3	11.9	3.2	5.0	24.2
Clothing and footwear	6.2	117.3	121.3	3.2	3.5	2.6	4.6	2.6	8.8
Liquor, tobacco, betel and arecanut	4.4	171.2	178.6	2.2	4.3	7.9	5.1	1.8	11.4
Personal care and health services	3.8	138.1	144.7	6.4	4.7	5.3	4.4	3.6	8.8
Transport	3.7	141.9	143.6	1.6	1.2	1.9	0.8	3.9	2.2
Education and recreation	2.8	134.5	140.1	10.3	4.1	8.9	4.2	0.9	5.4
Miscellaneous	2.3	145.0	144.6	13.7	-0.3	3.2	1.4	3.7	1.8

Source: Central Bank of Sri Lanka

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	
	2002	2003	2002	2003	Dec. 2002	Dec. 2003
Colombo	138.5	141.1	6.8	2.1	4.5	1.1
Anuradhapura	143.1	146.6	9.2	2.5	6.6	2.1
Matale	138.5	142.1	8.4	2.6	6.2	2.5
Matara	139.1	127.3	9.4	-1.3	3.6	-1.3

Source: Central Bank of Sri Lanka

movements of regional CPIs compiled for the districts of Anuradhapura (APCPI), Matale (MLCPI), and Matara (MRCPI). These four regional indices represent the movements in the prices of consumption baskets of the lowest 40 per cent of households ranked by their income as reflected in the Consumer Finance and Socio Economic Survey (CFS) 1996/1997 of the Central Bank. The weight structures of these indices indicate some differences in consumption patterns, which when combined with regional price variations, could lead to different regional inflation rates that reflect these differences.

However, in 2003, all regional CPIs reflected the general trend of falling inflation throughout the year, and marked significantly lower inflation rates than in 2002. APCPI and MLCPI registered annual average inflation rates of below 3 per cent. As discussed earlier, the corresponding inflation rate based on CDCPI was 2 per cent. The respective inflation rates were around 9 per cent, 8 per cent and 7 per cent in 2002. Meanwhile, the MRCPI actually registered a decline of around 1 per cent when compared with the previous year. This was attributed to the differences in weights and price changes among regional indices. Rice and coconuts, price decreases of which had significant impact on the decelerating trend in overall CPI inflation, represent a combined share of around 22

per cent of the MRCPI basket. Further, price decreases of these two items in Matara during the reference period compared to the corresponding period of the previous year were higher than in other regions. In addition, the share of fish, price increases of which were significant, represents a relatively lower share in MRCPI. Additionally, the price increases were lower in this region than in others.

Sri Lanka Consumers' Price Index (SLCPI)

Movements of the SLCPI during the year reflected the movements of the CPIs in all regions and confirmed that the deceleration in consumer price inflation in 2003 was widespread throughout the country. The SLCPI registered an annual average inflation rate of below 3 per cent compared to a corresponding increase of around 10 per cent in 2002. The deceleration of the price increases of major consumer items, especially of food items, had a dampening effect on the rising pressure from fuel and fuel related prices on this CPI as well.

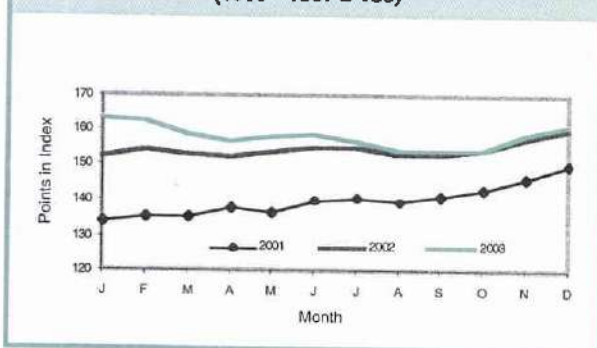
Accordingly, all sub-indices of SLCPI, except transport, recorded deceleration of price increases during the year. The transport sub-index, which has a share of around 3 per cent, registered an annual average increase of around 8 per cent in 2003, compared to around 4 per cent in 2002. Among sub-indices reflecting lower price pressure, the Food index was significant, as

TABLE 6.9
Sri Lanka Consumers' Price Index (1995 - 1997 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		2002	2003	2002	2003	Dec. 2002	Dec. 2003
All items	100.0	154.4	158.4	10.2	2.6	6.6	1.0
Commodity-wise							
Food, beverages and tobacco	71.2	153.3	154.8	10.1	1.0	5.6	-1.1
Clothing and footwear	4.1	131.4	141.9	9.6	8.0	10.6	7.2
Housing, water electricity, gas and other fuel	13.1	147.5	156.9	7.7	6.4	6.9	3.5
Furnishing, household equipment and routine maintenance of the House	2.1	149.1	153.2	12.3	2.8	6.8	4.5
Health	2.4	238.1	240.7	23.5	1.1	22.3	13.7
Transport	2.9	166.7	180.2	3.7	8.1	6.9	9.4
Leisure, entertainment and culture	0.8	136.9	136.9	4.7	0.0	0.0	0.0
Education	1.3	163.7	170.4	11.0	4.1	9.1	3.0
Miscellaneous goods and services	2.1	169.3	182.9	14.5	8.0	12.0	5.9

Source: Department of Census & Statistics.

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



it represents around 71 per cent of the overall SLCPI. It registered an increase of around 1 per cent in 2003 compared to around 10 per cent in 2002. Accordingly, a moderate increase in food prices, on average, was the main contributory factor for relatively low islandwide inflation in 2003.

A CPI should reflect the current consumption pattern of consumers for it to be taken as a meaningful measure of the changing cost of living in the overall economy. Accordingly, the base year of the CPI and the degree of both the geographical and expenditure or income group coverage are important determinants of the representativeness of an index. The current official measure of the cost of living, the CCPI, suffers in these three important areas of representation, due to its remote base year of 1952 and limited coverage confined to only the lowest 40 per cent of income groups within the Colombo Municipality. The SLCPI was introduced to address these deficiencies. It has a more recent base period of 1995 to 1997 and covers the lowest 80 per cent of expenditure groups in the country except the Northern and the Eastern provinces. It reflects price movements in the entire country excluding the Northern province. Further, it is anticipated that this index will be revised regularly based on frequent Household Income and Expenditure surveys conducted by the DCS that reflect changing consumption patterns. A comparison of the two CPIs, the CCPI and the SLCPI, reflects that the SLCPI is a more representative and robust measure of the cost of living in all these aspects and should gain acceptance as the most representative measure of consumer price inflation in Sri Lanka.

Wholesale Price Index

The Wholesale Price Index (WPI) captures price movements at primary market level. They are captured under 13 sub-indices, each covering a major category of goods. Price movements are further analysed under two specific classifications based on the direction of use, namely domestic, import and export, and the nature of use, namely consumer, intermediate and investment. Movements of the WPI provide signals about possible price movements at retail level in the near future. Movements in the WPI in 2003 also confirmed price developments at retail level reflected by different CPIs.

Accordingly, the annual average change of the index in 2003 was around 3 per cent compared to around 11 per cent in 2002 and marked easing pressure on prices in primary markets. The pattern of price movements of different categories of products was similar to those of comparable categories of CPIs. Accordingly, food prices helped reduce the impact of rising pressure from higher increases in prices of fuel and fuel related products and some other major non food imports. The favourable impact of food prices was more significant at primary market level than at retail level, as the food sub-index, which represents a share of around 68 per cent in the overall WPI, registered a decline of around 2 per cent in 2003 compared to an increase of around 14 per cent in 2002, whereas food sub-indices of CPIs marked increases but at significantly lower rates during 2003. Among major non food sub-indices, the one on petroleum products with the second highest weight of around 6 per cent increased by around 9 per cent compared to around 5 per cent in 2002. The sub-index on fuel and light, which has a share of around 2 per cent increased by around 15 per cent compared to only around 2 per cent in 2002. The sub-index on chemicals and chemical products, a category consisting mainly of imported items and with a share of around 5 per cent, increased by around 13 per cent in 2003. This index increased in 2002 at a lower rate of around 9 per cent. These price increases were attributed mainly to the increases in the international prices of these items, as the impact of exchange rate movements was minimal. Prices of textiles and footwear, as indicated by the respective sub-index, remained fairly stable at the previous year's level. This was reflected in the respective sub-indices of CPIs as well.

Under the direction-wise classification, the domestic group represents a share just higher than 50 per cent of the overall WPI, while the import and export groups represent around 27 and 21 per cent, respectively. The domestic group registered an annual average price increase of around 4 per cent in 2003 compared to around 5 per cent last year. Expansion in production, mainly of agricultural commodities, contributed to lower the pressure on prices. The import group registered the highest price increase of around 12 per cent in 2003 compared to a lower increase of around 2 per cent in 2002. Higher

Chart 6.7
Wholesale Price Index
(1974 = 100)

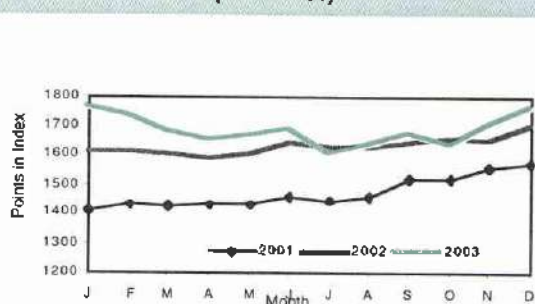


TABLE 6.10
Wholesale Price Index (1974 = 100)

Item	Weights	Average Index		Annual Average Percentage Change		Point to Point Percentage Change	
		2002	2003(a)	2002	2003(a)	Dec. 2002	Dec. 2003(a)
All Items	100.0	1,629.0	1,679.1	10.7	3.1	7.9	3.4
Commodity wise							
Food	67.8	1,526.5	1,493.0	13.7	-2.2	6.1	-1.3
Alcoholic drinks	2.9	1,898.7	1,955.5	0.8	3.1	-0.6	11.1
Textile and footwear	4.0	645.0	645.9	0.4	0.1	0.2	0.9
Paper products	1.4	1,109.6	1,109.6	-	-	-	-
Chemicals and chemical products	5.2	1,007.1	1,136.8	8.7	12.9	12.4	6.5
Petroleum products	6.4	2,395.4	2,608.0	5.2	8.9	13.1	10.4
Non metallic products	1.8	2,942.6	3,344.1	2.7	13.6	11.1	6.0
Metal products	0.9	820.9	922.0	3.2	12.3	9.7	9.2
Transport equipment	0.8	977.4	1,023.9	-3.7	4.8	-0.8	8.6
Electrical appliances and supplies	1.0	1,000.6	995.8	5.6	-1.1	-1.4	0.2
Machinery	1.3	815.7	847.3	9.1	3.9	6.0	-1.3
Fuel and light	1.8	2,998.1	3,441.7	2.3	14.8	11.2	5.1
Miscellaneous	4.8	3,156.1	3,869.4	12.9	22.6	18.3	22.9
Sectorwise No. I							
Domestic group	50.3	1,373.1	1,426.2	5.2	3.9	7.0	5.9
Import group	27.2	1,244.5	1,391.8	1.8	11.8	13.0	10.8
Export group	22.5	2,664.7	2,591.1	24.4	-2.8	6.1	-3.7
Sectorwise No. II							
Consumer goods	75.3	1,594.1	1,579.1	12.4	-0.9	5.8	-0.4
Intermediate goods	20.5	1,752.8	2,010.5	6.8	14.7	14.7	15.4
Investment goods	4.2	1,649.8	1,854.1	3.8	12.4	10.4	5.4

(a) Provisional

Source: Central Bank of Sri Lanka

international prices of intermediate imports such as petroleum were the main contributory factor. The export group, in contrast, registered a price decrease of around 3 per cent. Lower prices of such major exports as coconut and coconut oil, supported by the expansion in production, led to this outcome.

According to the use-wise classification, consumer goods registered a price decrease of around 1 per cent in 2003, in contrast to an increase of around 12 per cent in the previous year, mainly due to expansion in domestic agricultural production during the year. The other two categories, intermediate and investment goods, registered price increases of around 15 and 12 per cent, which were much higher than the respective increases in the previous year, around 7 and 4 per cent.

6.3 Wages

Wage developments in Sri Lanka can be analysed under two main categories of employment, i.e., public sector and private sector. The private sector again can be divided into the formal private sector and informal private sector. The public sector comprises the central, provincial and local government sectors, state corporations, statutory boards and state authorities. Wage developments in this sector are monitored through official wage indices which cover only the non-executive grades in central government and school-teachers in the public sector.

The formal private sector comprises private sector institutions that contribute to the general Employees' Provident

Fund (EPF) or maintain their own provident funds with the approval of the Commissioner of Labour. Movements of formal sector wages are monitored through the minimum wage rate indices that cover only the minimum wage categories of employees governed by the Wages Boards Trades. Wages are revised on the decisions of these Wages Boards. Separate wage rate indices are computed by the Department of Labour for three sectors, namely agriculture, industry and commerce, and services. A consolidated wage rate is also computed on a monthly basis. Information on wages in the informal private sector is collected under the Country Wide Data Collection System (CWDCS) of the Central Bank. (see Box article on Wage Movements in the Informal Sector)

Public Sector

Public sector wages, as measured by the relevant wage rate indices, remained unchanged at 2002 levels, as there were no wage revisions in 2003. This was in contrast to 2002, when although there were no wage revisions during the year, all average wage rate indices increased within a range of 15 to 18 per cent over the level in 2001, due to large-scale wage increases granted to all public sector employees towards the end of 2001. When nominal wages are adjusted for CPI inflation in 2003, real wages in all public sector employee categories covered by wage rate indices dropped by around 3 to 6 per cent, depending on the CPI measure used, compared to real wage increases in 2002.

Formal Private Sector

The consolidated wage rate for the formal private sector based on minimum wage rates rose by 7 per cent in nominal terms in 2003. This increase resulted in a real wage increase of around 1 per cent based on the CCPI and 4 per cent based on the SLCPI, when adjusted for inflation during the same period. The consolidated wage increased by around 7 per cent in 2002 as well. However, inflation of around 10 per cent lowered real wages in that year. The sector-wise wage indices experienced somewhat different behavior during 2003, when compared with the overall index. The sub-index for workers in the agriculture sector increased by around 9 per cent resulting in a real increase in 2003, compared to a nominal increase of around 8 per cent and a resultant drop in real wages in 2002. The other two sub-categories in the formal private sector suffered declines in their real wages for the second consecutive year, as nominal minimum wage increases in both 2002 and 2003 were lower than the CPI inflation rates during the respective periods. Workers in industry and commerce experienced a nominal minimum wage increase of around 2 per cent while workers in the services sector did not experience any minimum wage revisions and their real wages dropped further during 2003. However, these indices cover only the minimum wages, not all payments to workers.

It should be noted that the minimum wage indices available to monitor wage movements in the formal private sector do not cover the employee groups in higher wage categories. Such groups, consisting of employees at professional levels with technical and managerial skills, usually receive allowances to compensate for consumer price inflation. Some employees in the formal private sector receive cost of living allowances which are indexed to movements of CPI inflation. Accordingly, the actual movements in both nominal and real wages in the formal private sector could be different from what was observed with respect to movements of minimum wage rate indices during 2003.

Informal Private Sector

Wage movements in the informal sector are monitored through the information on daily wages collected monthly by the Central Bank under the CWDCS. However, information so collected is limited only to informal sector activities in the agriculture and construction sectors. Agriculture sector information covers the major crops, paddy, tea, rubber and coconut. Wages information is available for key activities under each major crop. Though there are distinct labour activities in each crop sector, unskilled daily wages do not vary significantly among activities and, hence, unskilled labour can shift easily from one activity to another. However, gender differences existed among daily wages. Historically, male workers have been paid higher daily wages than females in the same sector on the presumption, partly supported by fact, that the physical output of males is higher than of females. While this practice does not hold for all activities, these wage differences were observed in all informal sector activities.

Monthly information on construction sector wages is available for different skill levels under both masonry and carpentry. Construction sector activities are carried out on both daily wage and contract basis. The importance of contract based jobs is rising, as workers impose such conditions on the employer. Employers also tend to prefer that system as the cost for the entire contract can be estimated at the outset, whereas, daily wages require close supervision throughout, involving an opportunity cost. Employees also tend to work longer hours beyond the norm of 8 hours per day on contract, as they can then claim a higher payment, which the contractor is willing to pay, for speedy completion of the contract in a short time. These factors have contributed to wage differences under contract conditions and under daily payment conditions in the construction sector.

Nominal daily wages for almost all categories under both agriculture and construction moved upward in 2003 from their

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

Employment Category	Nominal			Real			Percentage Change			
							Nominal		Real	
	2001	2002	2003(a)	2001	2002	2003(a)	2002	2003(a)	2002	2003(a)
1. Government employees										
Central government employees	1,310.8	1,525.0	1,525.0	108.1	115.0	108.1	16.3	0.0	6.4	-6.0
Non-executives	1,225.9	1,410.3	1,410.3	101.1	105.3	100.0	15.0	0.0	5.2	-6.0
Minor employees	1,388.2	1,636.7	1,636.7	114.5	123.4	116.0	17.9	0.0	7.8	-6.0
Government school teachers	1,026.8	1,180.1	1,180.1	84.7	89.0	83.7	14.9	0.0	5.1	-6.0
2. Workers in wages boards trades										
All wages boards trades	1,049.3	1,126.5	1,205.2	86.6	84.9	85.4	7.4	7.0	-2.0	0.7
Workers in agriculture	1,176.4	1,289.8	1,382.2	97.1	95.6	96.0	7.9	8.9	-1.5	2.5
Workers in industry and commerce	919.7	986.5	1,009.4	75.9	74.4	71.6	7.3	2.3	-2.0	-3.8
Workers in services	657.6	678.0	678.0	54.3	51.1	48.1	3.1	0.0	-5.9	-6.0

(a) Provisional

Sources : Department of Labour
Central Bank of Sri Lanka

Box 12

Wage Movements in the Informal Sector

Background

In the informal private sector, employees are not governed by the rules and regulations applied to employees in either the public sector or the formal private sector. Minimum wage regulations and unionised labour contracts do not constrain adjustments in informal sector wages. Consequently, these wages tend to adjust according to demand and supply in the market. This leads to more frequent wage adjustments compared to wages in the formal sectors. Changes in consumer prices, relative scarcity of labour and changes in productivity, as reflected in the market prices of commodities which use labour as a prime input, and the seasonal nature of some activities affect informal sector wages. This highlights the importance of monitoring informal sector wages.

Availability of Information on Informal Sector Wages

Informal sector wages data are collected under the Country Wide Data Collection system of the Central Bank (CWDCS), which covers activities in the agriculture and construction sectors among a large array of informal sector activities. These wages are subject to fluctuations during the year, as activities in both sectors are affected by weather conditions, particularly the seasonality of rainfall. Consequently, peaks in demand for labour at planting and harvesting in agriculture and the intensity of construction sector activities vary with the weather.

Wage information is available for 4 major crop sectors, paddy, coconut, tea and rubber, and for masons and carpenters in the construction sector. This information is collected monthly for an array of different activities within these 6 sectors. Daily wages paid to workers for different activities under each crop in the agriculture sector are collected separately for males and females, which are further sub-divided based on whether meals are included or not (Table 1). The respective numbers of activities for each crop are 14, 10, 12 and 13. Construction sector wages for 3 levels of skill, namely, master craftsmen, skilled and unskilled labour, are collected for daily basis and contract basis separately, also considering whether meals are included or not (Table 2). As the construction sector is male dominated, with very few female workers, gender differences in wages have not been recorded in this sector, except for the unskilled labour category.

TABLE 1

Average Agriculture Sector Wages - 2003

Crop	Rs.			
	Male		Female	
	With Food	Without Food	With Food	Without Food
Tea	234.37	276.66	174.76	204.10
Rubber	257.13	285.59	216.19	240.81
Paddy	271.39	304.91	200.35	229.58
Coconut	303.70	329.16	205.88	239.81
Average	254.30	289.12	197.10	224.83

TABLE 2

Average Construction Sector Wages - 2003

Category	Rs.			
	Daily		Contract	
	With Food	Without Food	With Food	Without Food
Masonry	300.13	333.66	327.00	359.28
Carpentry	298.71	332.33	324.70	356.70
Average	299.42	333.00	325.85	357.99

Gender and Working Conditions Differences in the Informal Sector

Information in tables 1 and 2 reveal that average wages differed by gender in the case of agriculture and by the type of labour agreement viz. daily and contract basis, in the case of construction, and also by whether meals were provided or not. Daily wages without meals were higher by between Rs. 25 and Rs. 40 per day in each category. However, effective wages with or without meals on a monthly bases did not appear to vary significantly, as workers worked longer hours with meals provided than without, and such benefits compensated the employer for the cost of the meals.

In the crop sectors women were consistently paid less than men, on average by around Rs. 40 (21%) in the rubber sector to Rs. 100 (50%) in the coconut sector per person per day. Certain activities in the agriculture sector are confined to male workers, for example plucking coconuts by climbing, while some are dominated by females, such as tea plucking. Where there were disparities in wage levels among different activities in a given crop sector, the highest paid activities were those that required greater physical

intensity or skill. These activities were dominated by males, as the possibility of substitution between males and females was limited. Hence, females were mostly confined to the lower paid activities, widening the gap between average daily wages for males and females. Among activities in each sector that did not require specific training or skills, daily wages within each gender did not diverge significantly, because labour could be substituted easily from one activity to another.

Sectoral Differences

There was a wider variation in wages among different skill levels in the construction sector, than among different activities for a given crop in the agriculture sector.

In both agriculture and construction, wage differences were consistent across gender, by whether meals were provided or not and by type of contract within any given activity or skill level. Hence daily wages paid for males (with food) in different agricultural activities and wages paid for males on daily basis (with food) for master craftsmen, skilled and unskilled labourers in construction were used as proxies to analyse informal sector wages increments in these two sectors during the last 2 year period. Wages for dominant activities, in terms of frequency of data reported under the CWDCS in each sector, were selected for the analysis.

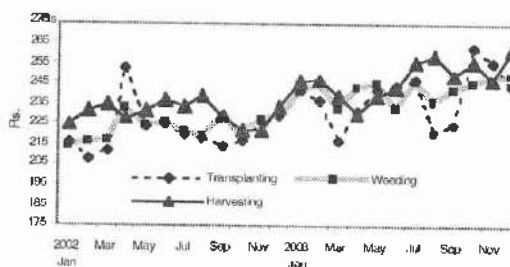
Agriculture

Wage rates varied among the 4 main crops in agriculture, which differed across gender. For male agriculture workers, the lowest average wages were paid in the tea sector, then rubber, paddy and coconut, in that order, with daily average wages differing by Rs. 50 (18%) to Rs.70 (30%) among crop sectors. However, for female agriculture workers, wage differences were lower, where average daily wages varied among the four sectors by Rs 35(18%) to Rs. 40 (23%), with highest wages in the rubber sector and lowest in the tea sector. The variations in wages among different activities in a given crop sector were lowest in tea and higher in other crop sectors.

Wages in the paddy sector did not vary significantly among different activities but appeared to be more influenced by the seasonality in the production cycle than in other crops. Wages for all activities increased consistently during this two year period. The level of wages appeared to vary depending on the predominance of the activity in a given season of the year. The average daily wage for all 14 activities in this category was Rs. 271 (Table 1), and had risen by around 10 per cent between 2002 and 2003.

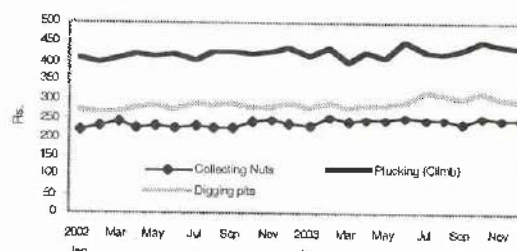
Box 12 (contd.)

Chart 1
Daily wages in paddy sector for 2002 - 2003



Coconut sector wages increased by around 4 per cent in 2003 compared to 2002 and remained more or less stable during 2003. Plucking which requires skilled labour, and is more risky received a significantly higher daily wage rate of over Rs. 400 than collecting nuts and digging pits, which were paid at around Rs. 250 and Rs. 275 per day, respectively, in 2003. Because of lower production towards the end of the year, wages for plucking declined during that period. The average daily wage for all 10 activities in this category was Rs. 304 (Table 1).

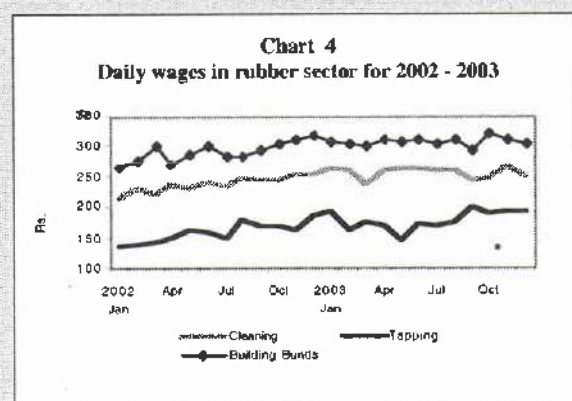
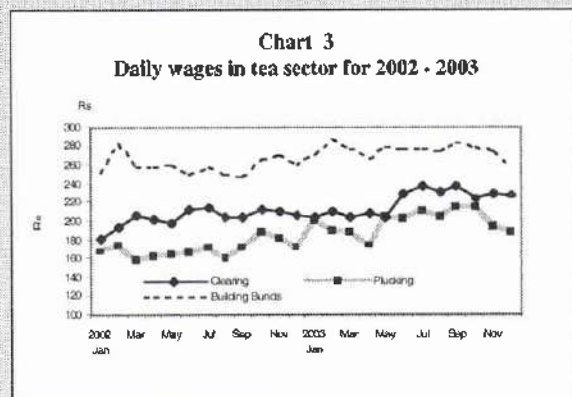
Chart 2
Daily wages in coconut sector for 2002 - 2003



Tea sector wages had increased during the two year period. Building bunds, which require skilled labour and physical strength, received a higher daily wage rate of over Rs. 250 than clearing and plucking where wages ranged between Rs 170 and Rs. 240. Overall wages were higher in 2003 than in 2002 in all 3 activities. Wages for plucking increased at a faster rate. The average daily wage in all 12 activities in this category was Rs. 234 (Table 1) and had increased by around 10 per cent between 2002 and 2003.

Daily wages in the rubber sector and variations among activities were in the same range as in the tea sector. There were no major fluctuations in rubber sector wages, which had increased during the last two year period. However, the

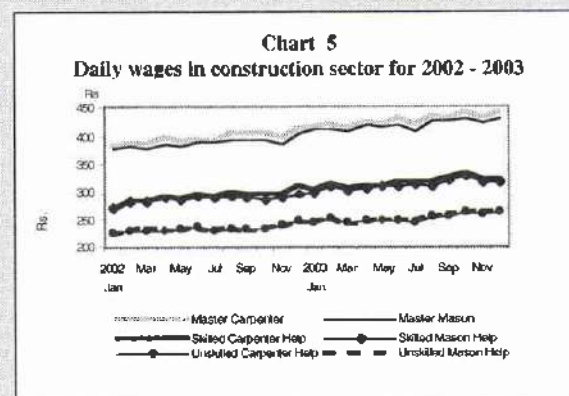
Box 12 (contd.)



average increase in this sector, of around 3 per cent was the lowest among agricultural sector wages for the year. A relatively higher wage was paid for building bunds and cleaning than tapping throughout the period. However, adverse weather conditions that prevailed in May last year due to floods would have curtailed tapping activity, thus reducing wages at that time. With rubber prices rising in international markets, the wage rate for tapping increased during the latter part of the year, resulting in a higher rate of increase for tapping than for cleaning and building bunds in 2003. The average daily wage in all 13 activities in this category was Rs. 257 (Table 1).

Construction

Daily wages in the construction sector for master carpenters and masons, were significantly higher on average, than in the agriculture sector and ranged from Rs. 400 to Rs 450 per day. A skilled helper earned a daily wage between Rs. 300 and Rs 350; it was between Rs 225 and Rs 275 for an unskilled helper. Construction sector wages increased during the last two years, with a sharper rate of increase in 2003 than in 2002 probably due to rising demand following the positive growth in the construction sector in 2003. A marginally higher wage rate for a master carpenter compared to a master mason was consistent throughout the period, although average daily wages in these two categories for all levels of skill, were not significantly different and around Rs. 325 (Table 2) and had increased by around 8 per cent between 2002 and 2003.



Conclusion

Information on daily wages rates in the informal sector confirms that wages in this sector respond to market conditions and reflect the seasonality of demand for those activities. Furthermore, unlike in the formal sectors, gender differences in wages exist in the informal sector, even when there is no gender differentiation in the level of skill or physical output required. This indicates gender discrimination in the wage rates paid for employment in the informal sector.

respective levels in 2002. Within the agriculture sector, rate of increase ranged from around 2 per cent to around 19 per cent. However, plucking coconuts registered a decline of around 3 per cent, in the wake of the decline in coconut prices.

Workers in the rubber sector enjoyed the highest wage increase, which was for tapping (males - 19 per cent, females - 17 per cent). Relatively higher international prices for rubber throughout 2003, which raised production, could have been the main reason for these increases, as higher prices created additional demand for tappers and consequently higher wages. Daily wages for other activities such as planting in the rubber sector increased by only 3 per cent in 2003. Unlike in the case of tapping, higher prices for rubber do not create higher demand for such activities, as they are related to the long-term improvements in the sector, where many factors affect such wage decisions. However, daily wages for those activities were higher than for tapping, because of the relatively heavy work involved.

Workers in the paddy sector earned higher daily wages within a range of 4 to 13 per cent in 2003. The highest increase was associated with more strenuous activities such as preparation of land and ploughing. Less strenuous activities such as transplanting and harvesting registered wage increases

below 10 per cent. The increased demand for labour with the expansion in the paddy sector during 2003 could be the main reason for these wage increases. The tea sector also enjoyed daily wage increases within a range of 5 and 11 per cent. The coconut sector experienced the lowest daily wage increase of 2 per cent for an activity, while wages actually decreased for other activities. Decreases in the price of coconuts during 2003 compared to 2002 may be the main reason for such wage developments in this sector.

When the above nominal wage increases were adjusted for changes in consumer price inflation of between 2 and 6 per cent during the same period, depending on the CPI used, the changes in real wages in the informal agricultural sector were mixed.

Daily wage increases in the construction sector in 2003 were within a range of around 7 to 9 per cent. The highest increase of around 9 per cent was for skilled helpers in both masonry and carpentry activities. Hence, employees in the construction sector enjoyed real wage increases within a range of 1 to 6 per cent in 2003, depending on the CPI used. This may reflect higher demand for these skills in the wake of rising activities in the construction sector, which grew by 5.5 per cent in 2003.