

**INFLATION and the developed**

During the last several years prices in the OECD countries have been rising at an accelerating rate. In 1974, the average rate of increase of prices worked out to the alarming figure of 15 per cent. In the six months ended May 1975 the rise in consumer prices in OECD dropped back to an annual rate of about 10 per cent. This was mainly due to the declining raw material and food prices and the stabilisation of oil prices. But prices have failed to drop as much as they are expected to fall in the recession, the exception being Japan, where the sharpest deceleration in inflation rate was registered.

Most member states of the Organisation for Economic Cooperation and Development succeeded in reducing their inflation rates for the year ending in June, compared with the previous May figures. But both Britain, with the second-highest inflation rate, and West Germany, with the lowest, suffered increases, along with Canada, New Zealand, Norway and Luxemburg.

Britain's rate jumped to 26.2 per cent, for the 12 month period, from 25.2 per cent in May. An OECD report says, West Germany's rate increased marginally from 5.9 per cent to 6 per cent, but it still was two full points better off than other members.

**INFLATION RATE FOR JUNE**

(May figures in brackets)

W. Germany	6.0	( 5.9 )
Switzerland	8.0	( 8.2 )
Austria	8.3	( 8.2 )
US	9.3	( 9.5 )
Netherlands	10.3	(10.4)
Canada	10.4	(10.1)
Denmark	10.6	(12.0)
Luxembourg	10.7	(10.1)
Sweden	10.6	(10.9)
France	11.7	(12.1)
Norway	12.0	(11.5)
Japan	12.9	(13.6)
Belgium	12.5	(13.7)
Newzealand	14.9	(13.2)
Australia	16.9	(17.6)
Spain	17.0	(17.1)
Finland	18.1	(18.1)
Italy	19.0	(19.7)
UK	26.2	(25.2)

Those nations benefiting from the next lowest rates were Switzerland (8 per cent) Austria (8.3 per cent) and the U.S. (9.3 percent).

In the case of Iceland, the latest inflation figure given in the report was the May figure of 47.4 percent.

Denmark and Belgium showed the biggest improvement in their inflation figures between May and June, according to the report.

OECD members as a group registered an overall rate of 11.9 per cent inflation in the year ending in June 1975 compared with 12.1 percent for the year ending in May.

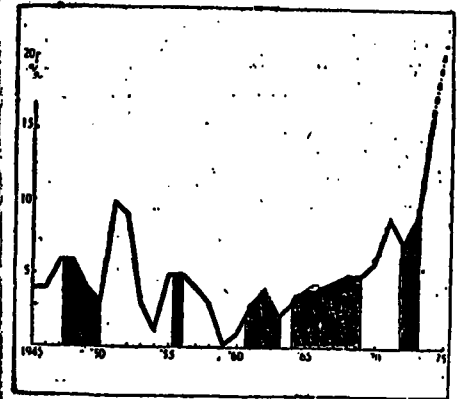
**SRI LANKA'S INFLATIONARY TREND**

Measurement of the rate of inflation in Sri Lanka has always been a problem in the absence of representative retail and wholesale price indexes. The only indicator is the cost of living index.

The cost of living index itself shows a fairly substantial increase from 150.8 in December 1972 to 183.8 in June 1974 which is an increase of 22 per cent in a matter of 18 months. In no earlier period has the cost of living increased to this extent. If reference is made to the price increase since the year 1960, the cost of living had at the most increased by about 2 points each year up to 1968. From 1968 onwards, prices began to rise a little faster and between 1968 and 1972 the cost of living index rose by about 8 points yearly with the exception of 1970 when the increase was only 3 points.

It may be useful to attempt to isolate the various sources of inflation in the country. One factor that has been given emphasis upto now has been the high prices of imports. Inflation has hit the economy very hard because of the country's heavy dependence on food imports. Apart from this, there have also been scarcities of food-stuffs which are exclusively produced at home and only indirectly related to imports because some of the items required to make them may have to be imported. There have also been

Britain's Inflation Rate

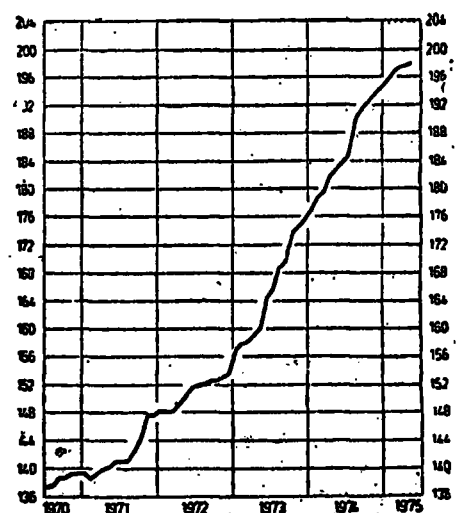


Sources: Lloyds Bank Review

price increases which have been caused by autonomous wage increases that have been confined to particular sectors of the economy, according to the Central Bank Staff Studies.

The Colombo Consumers Price Index for the month of May 1975 stood at 198.0 recording an increase of 0.15 per cent over the previous month's figure of 197.7. This was due to an increase of 0.24 per cent in the sub-index for food. The indices for clothing, fuel and light rent and miscellaneous items remained unchanged.

Colombo Consumers' Price Index



Source: Central Bank Monthly Bulletin