

## THE ECONOMY

### Pressures on Price Levels

Pressures on the price level have continued strongly into the first half of 1988 confirming fears of the trends that set in during the latter part of 1987. The rounds of salary increases in late 1987 and early 1988 and increasing flows of domestic credit during this period were expected to have a disturbing impact on general price levels. The sharp growth recorded in consumer prices in the first half of 1988 is clear evidence of this. The Colombo Consumers' Price Index (CCPI) showed an increase of 10.9 percent in this period, over the average level of 1987. This was more than double the 5.4 percent increase recorded during the corresponding period of 1987. On a point to point basis (over the 12 months upto June 1988) the increase in the index was 14.1 percent.

Food prices which rose by 12.4 percent in the first six months of this year have been mainly responsible for the upsurge in prices. Another significant increase was for the Fuel and Light category when the index rose by 9.5 percent compared to an increase of only 0.2 percent during the previous year. In the miscellaneous items index too the increase was as much as 8.3 percent. The Wholesale Price Index, maintained by the Central Bank, recorded an even higher increase of 17.1 percent in the first five months of 1988, compared to a 9.3 percent rise in the corresponding period of 1987. The improved export prices of tea and coconut products contributed to this increase; although prices of food items like imported rice, wheat grain, dried chillies and the CIF price of sugar also increased notably during this period. There were significant increases in the prices of alcohol, pharmaceutical products, soap, electrical items and clothing.

There was a marked growth in monetary aggregates mainly because of high domestic credit expansion which has been a major feature of monetary developments over the last 18 months. In 1987 money supply ( $M_1$ ) comprising currency and demand deposits held by public grew by 18 per cent; while the broad money supply ( $M_2$ ) consisting of

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