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PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY

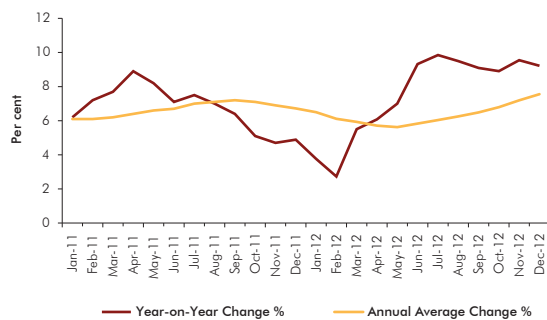
4.1 Overview

Inflation rose mainly due to cost pressures and supply side shocks in 2012 but was contained at single digit levels for the fourth consecutive year. Both year-on-year inflation and annual average inflation have been at single digit levels since February 2009 and August 2009, respectively. This is the longest period since mid 1973 that inflation has remained at single digit levels. The year-on-year headline inflation rate, which declined to 2.7 per cent in February 2012, moved upwards thereafter, to peak at 9.8 per cent in July 2012 and remained at high single digit levels during the rest of the year, moderating slightly to 9.2 per cent by December 2012. The relatively lower inflation observed during the first few months of the year was due to the improved domestic supply of food items and a moderation in international prices of imported commodities. The rising trend in inflation from the second quarter 2012 was due to a number of factors, such as the upward revisions of administered prices of petroleum products, LP gas, electricity and bus fares; the depreciation of the rupee; the increase in duties on several imported commodities; and the increase in food prices due to crop damage caused by both drought and floods. Although food price escalations due to

supply disruptions were temporary, the low base that prevailed in 2011 also contributed to inflation remaining at higher levels. The real wage increases would have exerted some cost and demand pressures on inflation. However, improved supply conditions of agricultural production, downward revisions of some administered prices and duties on imported items and demand management strategies together with managed inflation expectations helped contain inflation at single digit levels throughout the year. Consequently, the annual average headline inflation declined steadily from 6.5 per cent in January 2012 to 5.6 per cent in May 2012, but reversed this trend thereafter to move up to 7.6 per cent by year end. Meanwhile, core inflation, decelerated continuously on an annual average basis up to September 2012 but increased gradually thereafter to 5.8 per cent by year end, while core inflation on a year-on-year basis followed an upward trend during the year, recording 7.6 per cent in December 2012.

The nominal wages of employees in both the public sector and the private sector increased in 2012, with the formal private sector receiving the highest increase. Overall, the employees in the formal and informal private sectors enjoyed a

Chart 4.1 Colombo Consumers' Price Index
(2006/07=100)



real wage increase while those in the public sector recorded a marginal decline in real wages during the year. The increase in nominal wages of public sector employees (central government non-executive officers, minor employees and government school teachers) was due to a non-pensionable allowance paid from January 2012 following a Budget proposal. The overall nominal wage rate index of the formal private sector, as measured by the minimum wage rate indices of employees whose wages are administered by regulations under the Wages Boards Trades increased significantly by 22.2 per cent during 2012. This increase was entirely due to the upward revision in the minimum wages of workers in the Agriculture sector by 29.3 per cent in 2012. The significant increase in the real wages of the Agriculture sector by 20.4 per cent was partly offset by the real wage losses experienced by the employees in the Industry and Commerce sector, and the Services sector in 2012. As a result, the overall increase of real wages in the formal private sector was 13.8 per cent. Following the trend observed during the last few years, both the nominal and real wages of the informal private sector employees continued to increase in 2012 as well.

Unemployment declined to its lowest ever rate of 4 per cent in 2012 from 4.2 per cent in 2011. Broad based and sustained economic growth including several infrastructure development

projects contributed to reducing unemployment in the country. The composition of employment among major industry groups recorded a change with the increasing share of the Industry sector and Services sector and the declining share of the Agriculture sector in total employment. The Services sector dominated in providing employment opportunities in 2012. Employment in the public sector, the private sector and self employment grew during the year. A welcome development was a decline in unemployment among educated youth, those with GCE (A/L) and higher qualifications. However, as the unemployment rate among this category is still well above the national average, it is necessary to focus more on specialised education and skills development, including technical, vocational and IT based training to improve employability. As observed in the last few years, labour productivity continued to increase in 2012. Moreover, departures for foreign employment, which is a significant source of foreign exchange earnings for the country, also increased significantly during 2012.

4.2 Prices

Price Movements and Contributory Factors

Colombo Consumers' Price Index (CCPI)

The CCPI (2006/07=100), which is the official consumer price index, increased by 14.2 points in absolute terms, from 154.4 in December 2011 to 168.6 in December 2012. This reflects a year-on-year inflation of 9.2 per cent in December 2012 compared to 4.9 per cent in December 2011. The year-on-year inflation rate dropped to its lowest level of 2.7 per cent in February due to the fall in food prices, but started an increasing trend thereafter with the upward adjustment of petroleum prices, electricity charges and bus fares in February 2012 and a turnaround in food prices caused by the drought from the second quarter.

Table 4.1

Changes in Price Indices

Index	Index (year end)			Year-on-Year Percentage Change		Annual Average Percentage Change	
	2010	2011	2012 (a)	Dec.2011/ Dec.2010	Dec.2012/ Dec.2011 (a)	2011/2010	2012/2011 (a)
	CCPI (2006/07=100)	147.2	154.4	168.6	4.9	9.2	6.7
WPI (1974=100)	4,416.1	4,148.5	4,719.0	-6.1	13.8	10.6	3.5
GDP Deflator	338.9	365.5 (b)	398.0	-	-	7.9	8.9

(a) Provisional
(b) Revised

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

Consequently, year-on-year inflation reached a peak of 9.8 per cent in July 2012. The inflation rate moderated somewhat in subsequent months to record 9.2 per cent in December. Annual average inflation followed a downward trend during the first five months of 2012 reaching 5.6 per cent in May but increased gradually afterwards to 7.6 per cent by December 2012.

The major contribution to inflation was from the non-food category mainly on account of the upward adjustment of administratively determined prices in 2012. Consequently, the non-food category contributed to 70.7 per cent of the annual average change in the overall CCPI during the year. Within the non-food category, the sub-indices of Transport, and Housing, Water, Electricity, Gas and Other Fuels, which have relatively higher weights of 12.3 per cent and 23.7 per cent, respectively, in the CCPI basket, recorded contributions of 34.7 per cent and 24.9 per cent, respectively, to annual average inflation in 2012. The Transport sub-index increased by 21.6 per cent on an annual average basis, mainly driven by the upward adjustment of fuel prices and bus fares. The Housing, Water, Electricity, Gas and Other Fuels sub-index increased by 9.6 per cent due to the increase in price of water, electricity, LP gas and kerosene during the year. The other sub indices in the non-food category i.e. Clothing and Footwear; Health; Education; Furnishing, Household Equipment and Routine Maintenance; Recreation and Culture; and Miscellaneous Goods and Services contributed marginally to annual

average inflation. The Communication sub-index remained unchanged during the year.

The Food and Non-alcoholic Beverages sub-index, which has the highest weight of 41 per cent in the CCPI, contributed 29.3 per cent to the annual average inflation. The trend in the CCPI on both the annual average basis and the year-on-year basis largely moved in line with the food sub-index. The annual average change in the food sub-index decelerated markedly from 7.8 per cent in January to 2.8 per cent in June and increased gradually thereafter to 4.7 per cent in December 2012. Although the year-on-year change of the food sub-index was negative during the first three months, particularly due to the considerable decrease in the price of vegetables, coconut, sugar and eggs, it rose sharply thereafter to peak at 9.9 per cent in November, but moderated to 9 per cent in December. The higher rate of increase in the food sub-index towards the latter part of the year was due to the price surge in vegetables caused by heavy rains and floods. Further, the decrease in the average price of key food items such as dhal, eggs, red onion, coconut and coconut oil helped contain the price pressure on the sub-index to a greater extent in 2012. However, the price of wheat flour, bread, milk powder, sugar, big onion, fish and sea food, dried fish, meat and meals bought from outside increased during 2012.

The weighted average price of rice increased marginally in 2012 mainly due to the increase in rice prices during the second half, reflecting the reduction in paddy production in the Yala season. The availability of sufficient stocks in the

Table 4.2

Retail Price of Key Imported and Domestically Produced Items

Item	Unit	CCPI (2006/07=100) Weight %	Price - Rs.						Percentage Change				
			Annual Average			Dec. 2010	Dec. 2011	Dec. 2012	Annual Average		Year-on-Year		
			2010	2011	2012				2011/ 2010	2012/ 2011	Dec.2011/ Dec.2010	Dec.2012/ Dec.2011	
Domestic	Rice - Samba	1kg	1.96	72.05	68.38	70.15	72.30	68.19	74.06	-5.1	2.6	-5.7	8.6
	Rice - Kekulu (red)	1kg	0.85	60.14	57.27	57.08	59.19	56.80	60.58	-4.8	-0.3	-4.0	6.7
	Rice - Kekulu (white)	1kg	0.60	54.26	56.58	56.26	57.89	56.33	60.46	4.3	-0.6	-2.7	7.3
	Rice - Nadu	1kg	0.35	60.79	59.25	59.67	60.95	58.95	62.73	-2.5	0.7	-3.3	6.4
	Coconut (medium)	nut	1.84	33.59	41.01	34.76	47.18	33.78	38.22	22.1	-15.2	-28.4	13.1
	Fish - Kelawalla	1kg	1.11	598.15	632.32	694.14	639.43	652.30	718.18	5.7	9.8	2.0	10.1
	Beans	1kg	0.43	135.26	167.34	157.60	157.17	175.07	160.65	23.7	-5.8	11.4	-8.2
	Brinjals	1kg	0.19	87.04	90.84	99.25	105.75	87.31	113.28	4.4	9.3	-17.4	29.7
	Eggs	each	0.37	13.60	11.64	11.29	16.53	9.67	14.49	-14.4	-3.0	-41.5	49.8
Imports	Sugar	1kg	1.12	93.78	96.11	101.04	99.61	92.91	105.50	2.5	5.1	-6.7	13.6
	Milk Powder - Anchor	400g	3.21	234.35	255.92	302.35	244.00	264.00	325.00	9.2	18.1	8.2	23.1
	Red Dhal	1kg	0.73	165.40	149.20	145.07	168.32	131.95	146.18	-9.8	-2.8	-21.6	10.8
	Wheat Flour	1kg	0.20	69.61	83.92	90.92	82.43	84.07	98.46	20.6	8.3	2.0	17.1

Source: Department of Census and Statistics

market together with the bumper paddy harvest in the Maha season helped keep the price of rice at low levels during the first five months of the year. However, rice prices began to increase gradually in the second half of the year, mainly due to the setback in the Yala paddy harvest as a consequence of adverse weather conditions in the major cultivation areas. The guaranteed price of paddy was also increased by 10 per cent in 2012. As a result, the average price of all varieties of rice increased by about 3.1 per cent from January to December 2012. The price ceiling on rice imposed by the government since end 2010 has contributed to containing increases in the price of rice to a certain extent.

The weighted average price of vegetables decreased in 2012 over the previous year despite weather related crop damages. The weighted average price of both up-country and leafy vegetable sub-groups declined while that of the low-country vegetable sub-group increased in 2012 when compared to 2011. The prices of most varieties of vegetables declined substantially during February to April 2012 due to improvements

in supply conditions. However, prices increased in May and June as a result of drought conditions that prevailed in major cultivation areas. Vegetable prices declined thereafter, but moved upwards from November on account of crop damage and disruptions to transport due to heavy rains and floods experienced in certain parts of the country. As a result, the weighted average price of the vegetable sub-group recorded an increase of 12.7 per cent from January to December 2012 although the annual average weighted price of vegetables was lower in 2012 than that in 2011. Meanwhile, the average price of both coconut and coconut oil decreased by 19.2 per cent and 21.9 per cent, respectively, in 2012 due to the increase in coconut production and price developments in the international market. However, the price of coconut remained high during the first five months of the year. The average price of red onion and potato also decreased by 37.4 per cent and 1.3 per cent, respectively, while the price of big onion increased by 2.3 per cent in 2012, compared to 2011. The sharp drop in the price of red onion in 2012 was mainly due to the increased local supply from the Northern Province.

Table 4.3

Revisions to Key Items with Administered Prices 2010 - 2012

Item	Unit	Price (year end) - Rs.			Percentage Change		
		2010	2011	2012	2011/2010	2012/2011	
Diesel - CPC	1 ltr.	73.00	84.00	115.00	15.1	36.9	
Diesel - LIOC	1 ltr.	73.00	84.00	121.00	15.1	44.0	
Kerosene	1 ltr.	51.00	71.00	106.00	39.2	49.3	
Petrol	1 ltr.	115.00	137.00	159.00	19.1	16.1	
Gas - Litro	12.5 kg	1,652.00	2,046.00	2,246.00	23.8	9.8	
Gas - Laugfs	12.5 kg	1,520.00	2,046.00	2,246.00	34.6	9.8	
Furance Oil (1000)	1 ltr.	48.70	48.70	n.a.	0.0	n.a.	
Furance Oil (1500)	1 ltr.	40.00	50.00	90.00	25.0	80.0	
Furance Oil (3500)	1 ltr.	40.00	50.00	90.00	25.0	80.0	
Electricity - Fixed Charge	Tariff Blocks	First 30 units	60.00	30.00	30.00	-50.0	0.0
		31 - 60 units	90.00	60.00	60.00	-33.3	0.0
		61 - 90 units	120.00	90.00	90.00	-25.0	0.0
		91 - 180 units	180.00	315.00	315.00	75.0	0.0
		Above 180 units	240.00	315.00	315.00	31.3	0.0
Electricity - Unit Charge	Tariff Blocks	First 30 units	3.00	3.00	3.00	0.0	0.0
		31 - 60 units	4.70	4.70	4.70	0.0	0.0
		61 - 90 units	7.50	7.50	7.50	0.0	0.0
		91 - 120 units	16.00	21.00	21.00	31.3	0.0
		121 - 180 units	16.00	24.00	24.00	50.0	0.0
		181 - 600 units	25.00	36.00	36.00	44.0	0.0
		Above 600 units	25.00	36.00	36.00	44.0	0.0
Electricity - Fuel Adjustment Charge(a)	Tariff Blocks	First 30 units	-	-	-	-	25.0
		31 - 60 units	-	-	-	-	35.0
		above 60 units	-	-	-	-	40.0
Water - Unit Charge	Tariff Blocks	00 to 05 units	3.00	3.00	8.00	0.0	166.7
		06 to 10 units	7.00	7.00	11.00	0.0	57.1
		11 to 15 units	15.00	15.00	20.00	0.0	33.3
		16 to 20 units	30.00	30.00	40.00	0.0	33.3
		21 to 25 units	50.00	50.00	58.00	0.0	16.0
		26 to 30 units	75.00	75.00	88.00	0.0	17.3
Bus Fare					7.6	20.0	

(a) Fuel adjustment charge is only applicable to the monthly energy charge and was reimposed with effect from 16.02.2012.

Source: Central Bank of Sri Lanka

The prices of fresh fish, sea food and dried fish increased in 2012. Despite a growth in fish production by 9.3 per cent in 2012, the weighted average price of fresh fish and sea food increased by 11.7 per cent largely due to higher cost of production and increased demand. The price of most varieties of fish recorded increases in the range of 6.4-17.9 per cent in 2012. However, the weighted average price of both large and small fish was low during the period from February to April and October to November due to seasonal factors. The prices of all varieties of dried fish also

recorded significant increases ranging from 7.5-24 per cent. Meanwhile, the price of chicken increased marginally by 1.4 per cent, while the price of eggs decreased, on average, by 6.7 per cent in 2012 due to improved local production.

The upward revision of the price of fuel, LP gas and electricity charges during the year exerted pressure on inflation both directly and indirectly. The import price of crude oil was highly volatile and fluctuated between US dollars 96.60 and US dollars 121.21 per barrel during the year. The depreciation of the rupee also raised the rupee

cost of oil imports. The price revisions resulted in an increase in the prices of diesel, petrol and kerosene per litre by 36.9 per cent, 16.1 per cent and 49.3 per cent, respectively, in 2012. The increase in fuel prices, especially diesel, had an adverse impact on the retail price of commodities through increased cost of production and transportation. Bus fares were also increased by 20 per cent with effect from 14 February 2012. The average price of LP gas increased by 9.8 per cent in 2012 following the price revisions. A fuel adjustment charge within the range of 25-40 per cent was imposed on electricity bills with effect from February 2012. Reflecting the indirect impact of these price revisions, the prices of prepared food also increased. There was also an upward adjustment of both the unit charge and the service charge of water, based on the number of units consumed with effect from October 2012.

The prices of selected imported food commodities also increased, in line with price developments in the international market. The average price of wheat flour and bread was increased by 7.9 per cent and 16.9 per cent, respectively, in 2012. The maximum selling price of a 400g packet of milk powder was increased by Rs. 61 with effect from 05 May 2012, which caused the weighted average price of milk powder to increase by 19.9 per cent in 2012.

The Special Commodity Levy (SCL) on certain imported food commodities was revised on several occasions during the year and this also had an impact on the CCPI. The purpose of these revisions was to safeguard domestic producers and stabilise prices in the domestic market. Accordingly, the SCL on sugar, dhal and garlic was adjusted upward with effect from January 2012. Similarly, the SCL on big onion and sugar was raised from May 2012. The SCL on big onion, potato, canned fish, dried fish and sprats was revised downward from July 2012 to combat the sharp price increases in the local market. With the approach of the harvesting period, the SCL on

potato and big onion was increased from August in order to safeguard local farmers. A further increase of the SCL on potato and canned fish was effected in September 2012. However, in view of the higher prices that prevailed in the market due mainly to unfavourable weather conditions, the SCL on potato, big onion and red onion was lowered with effect from December 2012 to stabilise prices in the domestic market.

Core inflation, which is computed by excluding fresh food, rice, coconut, energy and transport from the CCPI basket, also increased on both annual average and year-on-year bases. The annual average core inflation rate moved on a declining path continuously to 5.3 per cent in September 2012 but edged upwards thereafter to 5.8 per cent by year end. Meanwhile, year-on-year core inflation which remained in the mid single digit levels during the first half of 2012, increased gradually to 7.6 per cent in December 2012. The contribution to the annual average change in the core inflation index came mainly from the sub indices of Food and Non-alcoholic Beverages (60.8 per cent); Housing, Water, Electricity, Gas and Other Fuels (8.8 per cent); Transport (8.4 per cent); and Clothing and Footwear (7.9 per cent) in 2012.

Wholesale Price Index (WPI)

The WPI (1974=100) which tracks price movements at the primary market level, increased moderately on an annual average basis, but more steeply on a year-on-year basis in 2012. The WPI decelerated continuously on an annual average basis from 8 per cent in January to negative 0.4 per cent in August, but reversed the trend thereafter and increased gradually to 3.5 per cent in December. The year-on-year change in the WPI declined initially from negative 9.9 per cent in January to negative 10.2 per cent in February and moved upwards thereafter on an increasing path to 9.2 per cent in July, dipped to 7.8 per cent in August and rose from then on to 13.8 per cent in

December. This is due to increases in food and petroleum products sub-indices.

The WPI is dominated by the Food sub-index, which has a weight of 67.8 per cent in the basket. The Food sub-index recorded an annual average decrease of 0.7 per cent in 2012. All the other sub-indices, except Chemicals and Chemical products and Miscellaneous, recorded increases on an annual average basis in 2012. The Petroleum sub-index recorded the highest annual average increase of 40.4 per cent in 2012. When the sector-wise classification of WPI is considered, the prices of Domestic and Import categories increased by 4.8 per cent and 22.4 per cent, respectively, while the prices of the Export category declined by 7.7 per cent, on an annual average basis. Price increases in wheat flour, imported rice, wheat grain, Maldive fish, diesel, petrol and kerosene oil contributed to a significant increase in the Import group while price decreases of coconut, coconut oil and ribbed smoked sheet rubber (RSS 1) contributed to the negative growth of the Export group. Under the end-use classification of the WPI, prices in all three categories namely Consumer, Intermediate and Investment, increased by 0.5 per cent, 10 per cent and 16.1 per cent, respectively, on an annual average basis, at year end. The price increase of wheat flour, imported rice, wheat grain, tyres, diesel, petrol and kerosene oil contributed largely to the increase in the Intermediate category while the price increase of TOR steel, water pumps, bricks, sewing machines and refrigerators contributed to the rise in the Investment category.

GDP Deflator

The overall price change in the economy, as measured by the GDP deflator, recorded an increase of 8.9 per cent in 2012 compared to 7.9 per cent in 2011. The Industry sector, which registered the lowest rate of inflation among the three major sectors in the economy during the previous year, recorded the highest rate of 10.6

Table 4.4 Sectoral Deflators and GDP Deflator

Sector	Index			Percentage Change	
	2010	2011(a)	2012 (b)	2011/2010 (a)	2012/2011 (b)
Agriculture	377.1	410.3	410.2	8.8	0.0
Industry	342.4	368.2	407.3	7.5	10.6
Services	327.6	353.7	388.1	8.0	9.7
GDP	338.9	365.5	398.0	7.9	8.9

(a) Revised
(b) Provisional

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

per cent in 2012. Within the Industry sector, all four sub-sectors namely, mining and quarrying; manufacturing; electricity, gas and water; and construction contributed towards this increase. Similarly, prices in all sub-sectors in the Services sector i.e. wholesale and retail trade; hotels and restaurants; transport and communication; banking, insurance and real estate etc; ownership of dwellings; government services; and private services moved up in 2012 and as a result the overall Services sector increased by 9.7 per cent. In contrast, the prices in the Agriculture sector remained unchanged in 2012. Although the fishing sub-sector recorded an increase of 13.1 per cent in 2012, this was totally offset by the decline of 2.3 per cent recorded by the agriculture, livestock and forestry sub-sector.

4.3 Wages

The nominal wages of employees in both the public and private sectors increased while the real wages of only private sector employees increased in 2012. The increase in both nominal and real wages was significant among the employees in the formal private sector whose wages are governed by the Wages Boards Trades. Both the nominal and real wages of informal private sector employees whose wages are determined freely in the labour market by demand and supply factors also showed a considerable increase, particularly in nominal terms, during 2012. Meanwhile, in the public sector, there was an increase in nominal wages due to the upward revision of the non-pensionable allowance equivalent to 10 per cent of the basic

Table 4.5

Wage Rate Indices

December 1978=100

Employment Category	Index						Percentage Change					
	Nominal			Real (a)			Nominal			Real (a)		
	2010	2011	2012 (b)	2010	2011	2012 (b)	2010	2011	2012 (b)	2010	2011	2012 (b)
1. Government employees												
Central government employees	4,651.6	4,964.5	5,304.7	154.7	154.7	153.8	3.3	6.7	6.9	-2.7	0.0	-0.6
Non-executives	4,210.4	4,490.1	4,803.6	140.1	139.9	139.3	3.1	6.6	7.0	-2.8	-0.1	-0.5
Minor employees	5,116.1	5,465.1	5,831.8	170.2	170.3	169.1	3.5	6.8	6.7	-2.5	0.1	-0.7
Government school teachers	3,321.7	3,576.1	3,821.8	110.5	111.5	110.8	3.3	7.7	6.9	-2.7	0.9	-0.6
2. Workers in Wages Boards Trades												
All Wages Boards Trades	2,865.3	2,996.1	3,662.0	95.3	93.3	106.2	32.0	4.6	22.2	24.3	-2.0	13.8
Workers in agriculture	3,327.6	3,427.2	4,433.0	110.7	106.8	128.6	41.6	3.0	29.3	33.4	-3.6	20.4
Workers in industry and commerce	2,199.0	2,402.1	2,402.1	73.1	74.9	69.7	7.1	9.2	0.0	0.7	2.4	-6.9
Workers in services	1,673.3	1,851.8	1,851.8	55.6	57.7	53.7	8.2	10.7	0.0	1.8	3.8	-6.9

(a) Real wage rate indices are based on CCPI (2006/07=100).

(b) Provisional

Sources: Department of Labour
Central Bank of Sri Lanka

salary, granted to the employees. However, the real wages of public sector employees recorded a slight decline of 0.6 per cent as the nominal wage increase was more than offset by the increase in the price level in 2012.

Public Sector Wages

The nominal wage rate indices of public sector employees increased in 2012. This increase was mainly due to the special non-pensionable allowance equivalent to 10 per cent of the basic salary, granted to public sector employees with effect from January 2012. The monthly Cost of Living Allowance (COLA) payable to public sector employees, which was increased to Rs 5,850 in January 2011, remained unchanged in 2012. The nominal wage rate indices of non-executive officers, minor employees and government school teachers rose by 7 per cent, 6.7 per cent and 6.9 per cent, respectively, in 2012 compared to increases in the range of 6.6-7.7 per cent in 2011. Consequently, the overall nominal wage rate index of central government employees increased by 6.9 per cent, on average, in 2012 compared to an increase of 6.7 per cent in 2011.

When nominal wages were adjusted for inflation, there was a marginal drop in real wage rate indices of all categories of public sector employees in 2012. Non-executive officers, minor employees and government school teachers

recorded real wage erosion of 0.5 per cent, 0.7 per cent and 0.6 per cent, respectively, in 2012. In 2011, only minor employees and government school teachers enjoyed a marginal real wage increase of 0.1 per cent and 0.9 per cent, respectively, while non-executive officers recorded a real wage erosion of 0.1 per cent. The combined impact of the wage developments mentioned above resulted in a decline in the overall real wage rate index of central government employees by 0.6 per cent in 2012.

Formal Private Sector Wages

Nominal wages of the organised private sector, as measured by the minimum wage rate indices, increased significantly by 22.2 per cent in 2012 compared to 4.6 per cent in the previous year. This increase was entirely due to the rise in the wage rate index of the Agriculture sector by 29.3 per cent in 2012 in comparison with an increase of 3 per cent in 2011 on account of wage revisions granted in 2011 and 2012. Accordingly, the daily wages of employees in the Tea and Rubber Growing and Manufacturing sector; and the Coconut Growing sector were increased by 33.3 per cent to Rs. 380 from December 2011 and by 16.1 per cent to Rs. 360 from February 2012, respectively. Meanwhile, the minimum wage rate indices of the other two categories of the formal private sector, namely, Industry and Commerce,

and Services sectors remained unchanged during the year. Consequently, the positive impact on the overall minimum wage rate index on account of the wage increase in the Agriculture sector was somewhat minimised by the constant wages in the Industry and Commerce, and Services sectors.

The employees in the formal private sector, especially in the Agriculture sector, enjoyed a substantial gain in their real wages while those in the Industry and Commerce, and Services sectors experienced a decline in their real wages in 2012. Accordingly, the real wages in the Agriculture sector increased by 20.4 per cent while the Industry and Commerce, and Services sectors recorded real wages declines of 6.9 per cent each in 2012. Consequently, the overall real wage rate index of the formal private sector recorded an increase of 13.8 per cent over the previous year.

Informal Private Sector Wages

Average daily wages of the informal private sector increased at varied rates in nominal and real terms during 2012. The informal private sector

comprises of all employees outside the public and formal private sectors. Wages are determined by demand and supply conditions in the labour market and the level of the reservation wage of labour in the economy. The wage information for this sector covering agriculture and building construction is collected under the Country Wide Data Collection System (CWDCS) operated by the Central Bank.

Daily wages of the informal private sector increased in nominal terms by an average rate of 14.1 per cent in 2012. Accordingly, the increase in nominal wages of workers in the Agriculture and Construction sectors was 14.4 per cent and 12.5 per cent, respectively, in 2012. Within the Agriculture sector, the average daily wages of sub-categories of Rubber, Tea, Paddy and Coconut increased by 15.6 per cent, 14.3 per cent, 14.3 per cent and 13.1 per cent, respectively, in 2012. Except in the Coconut sub-sector, the increase in nominal wages was relatively higher in the sub-sectors of Rubber, Tea and Paddy, compared to the respective increases in the

Table 4.6

Informal Private Sector Daily Wages by Sector and Gender (a)

Sector	Annual Average (Rs.)			Percentage Change			
	2010	2011	2012 (b)	Nominal		Real (c)	
				2011	2012 (b)	2011	2012 (b)
1. Agriculture Sector							
Tea							
Male	545	617	691	13.2	12.0	6.0	4.1
Female	396	438	512	10.6	16.9	3.6	8.7
Rubber							
Male	588	658	741	11.9	12.6	4.8	4.7
Female	474	490	585	3.4	19.4	-3.2	11.0
Coconut (d)							
Male	700	783	887	11.9	13.3	4.8	5.4
Paddy							
Male	658	704	787	7.0	11.8	0.2	4.0
Female	454	530	599	16.7	13.0	9.3	5.1
2. Construction Sector (d)							
Carpentry							
Master Carpenter - Male	1,000	1,115	1,248	11.5	11.9	4.4	4.1
Skilled and Unskilled Helper- Male	656	729	824	11.1	13.0	4.1	5.1
Masonry							
Master Mason - Male	994	1,093	1,216	10.0	11.2	3.0	3.5
Skilled and Unskilled Helper- Male	667	729	823	9.3	12.9	2.4	5.0

(a) Wage Information is based on monthly wages from 102 data collection centres under the CWDCS.

Source: Central Bank of Sri Lanka

(b) Provisional

(c) Real wages are based on CCPI (2006/07=100).

(d) Female participation is minimal in these sectors.

previous year. Although production, unit price, and export value and volume of tea and rubber products declined in 2012, the workers were paid higher wages, perhaps due to the lower supply of labour, which exerted pressure on wage rates. The increase in daily wages in the Coconut sub-sector would have been largely driven by the demand for higher wages by workers, in line with higher production of coconut during the year. A slight improvement in paddy production in 2012 paved the way to raise the wages of workers in the Paddy sub-sector as well. Moreover, the sharp increase in the minimum wages of the workers in the Agriculture sub-sector of the formal private sector would have influenced the informal private sector wages of the Agriculture sector, causing it to increase in turn. In the Construction sector, daily wages for carpenters and masons recorded higher increases of 12.7 per cent and 12.3 per cent, respectively, in 2012. This increase was attributed to the continued high demand for workers in construction activities in the shrinkage of the labour supply in this field, which was due partly to the migration of such workers for foreign employment.

Gains in real wages of employees in all sub-sectors of the Agriculture and Construction sectors were recorded in 2012. Accordingly, the average daily real wages of Rubber, Tea, Paddy and Coconut sub-sectors increased by 7.5 per cent, 6.3 per cent, 6.3 per cent and 5.2 per cent, respectively, in 2012. The increase in the average daily real wages of the Carpentry and Masonry sub-sectors in the Construction sector was 4.8 per cent and 4.5 per cent, respectively. Overall, both the Agriculture and Construction sectors recorded relatively higher real wage increases of 6.4 per cent and 4.7 per cent, respectively, in 2012. Accordingly, daily real wage for employees in the informal private sector, on average, increased by 6.2 per cent in 2012 compared to an increase of 4.6 per cent in the previous year.

4.4 Population, Labour Force and Employment

Population

The mid-year population in 2012 was estimated at 20.328 million. Females accounted for 51.5 per cent in the total population while males accounted for 48.5 per cent. More than one fourth of the total population lived in the Western Province

Table 4.7 District-wise Population and Density (a)

District	2011 (b)	2012 (c)	
		Population	Density
Colombo	2,584,413	2,315,593	3,425
Gampaha	2,191,190	2,300,271	1,715
Kalutara	1,143,778	1,220,381	774
Kandy	1,447,292	1,374,672	717
Matale	503,907	484,201	248
Nuwara Eliya	767,444	709,564	416
Galle	1,095,718	1,061,449	656
Matara	847,438	811,884	639
Hambantota	576,171	599,170	240
Jaffna	617,117	584,704	629
Mannar	105,336	99,528	53
Vavuniya	177,301	172,064	92
Mullaitivu	144,160	92,144	38
Kilinochchi	159,862	113,545	94
Batticaloa	549,834	526,940	202
Ampara	653,985	650,913	154
Trincomalee	379,942	379,702	150
Kurunegala	1,576,669	1,615,554	349
Puttalam	788,510	762,764	265
Anuradhapura	840,129	859,238	129
Polonnaruwa	414,808	404,435	131
Badulla	897,342	814,670	288
Moneragala	445,090	449,889	82
Ratnapura	1,138,840	1,085,754	336
Kegalle	822,527	839,014	498
Total	20,868,803	20,328,043	324

(a) Provisional Source: Registrar General's Department

(b) The mid-year population estimates for 2011 were based on the Census of Population and Housing of 2001 (which covered only 18 districts of the country) and estimates for the rest of the 7 districts; and data on natural increase in population and net migration during the period from 1st July 2010-30th June 2011.

(c) The mid-year population estimates for 2012 were based on the Census of Population and Housing conducted in February and March 2012 (which covered the entire island); and data on natural increase in population and net migration during the period from 20th March-30th June 2012.

(28.7 per cent), while the least populated province was the Northern Province (5.2 per cent). Within the Western Province, the population of Colombo and Gampaha districts exceeded 2 million each and accounted for 79.1 per cent of the population of the Province. In contrast, Mullaitivu (92,114) and Mannar (99,528) districts recorded the lowest population with less than one hundred thousand each. The five districts of Kurunegala, Kandy, Kalutara, Ratnapura and Galle recorded population of more than one million each. The numbers of in-migration and out-migration of persons reported in 2012 were 2.496 million and 2.548 million, respectively, and the net migration rate was -2.6 per thousand persons. The population density, which is the number of persons per square kilometer of the country, was estimated at 324 in 2012. The population density of Colombo district was 3,425, while that of Mullaitivu was 38.

Labour Force

According to the Quarterly Labour Force Survey (QLFS) conducted by the DCS, covering the entire island, the labour force declined by 1.1 per cent to 8.465 million in 2012. The labour force is defined as the economically active population aged 10 years and above. Consequently, both the number of employed persons and unemployed persons decreased. The rise in migration of

economically active persons and the increase in economically inactive population may have contributed to this decline.

The labour force participation rate (LFPR) declined marginally. The LFPR which is expressed as the ratio of the labour force to the household population aged 10 years and above, decreased to 47.2 per cent in 2012 from 47.8 per cent in the previous year. The decrease was attributable to the decline in the female LFPR which was estimated at 29.9 per cent in 2012 compared to 31.2 per cent in 2011. There was a marginal increase in the male LFPR to 66.8 per cent in 2012 from 66.2 per cent in 2011, which has continued to be more than double the female equivalent over the past few years. The LFPR in the rural sector declined marginally to 48 per cent in 2012 from 48.4 per cent in 2011, while the LFPR in the urban sector increased marginally to 43.7 per cent in 2012 from 43.4 per cent in 2011. The decline in LFPR in the rural sector was entirely due to lower female labour force participation which declined to 30.6 per cent in 2012 from 32 per cent in 2011. Male labour force participation in the rural sector increased slightly to 67.5 per cent in 2012. In the urban sector, both the male and female LFPR increased to 63.4 per cent and 26.4 per cent, respectively, in 2012 from 63 per cent and 25.6 per cent, respectively, in 2011.

Table 4.8 Household Population, Labour Force and Labour Force Participation (a)

Item	2011	2012 (b)(c)			
		Q2	Q3	Q4	Annual
Household Population (d) '000 Persons	17,910	17,785	17,838	18,123	17,915
Labour Force '000 Persons	8,555	8,260	8,418	8,716	8,465
Employed	8,197	7,936	8,075	8,375	8,129
Unemployed	358	324	343	341	336
Labour Force Participation Rate (e) per cent	47.8	48.4	47.2	48.1	47.2
Male	66.2	66.5	66.2	67.6	66.8
Female	31.2	28.6	30.3	30.7	29.9

(a) Data covers all districts

(b) Provisional

(c) Quarterly Labour Force Survey for the 1st quarter of 2012 was not conducted by the DCS

(d) Population aged 10 years and over

(e) Labour force as a percentage of household population aged 10 years and over

Source: Department of Census and Statistics

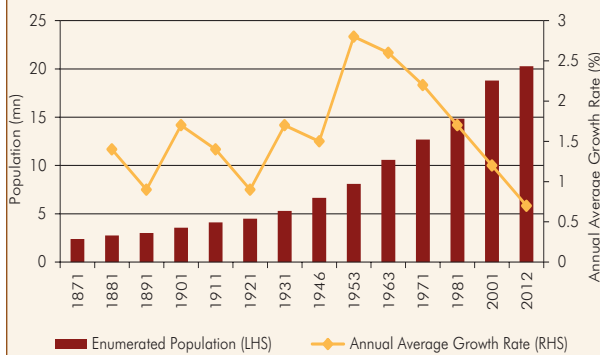
BOX 7

Economic Implications of the Age Structure Transition of the Population

The Census of Population and Housing 2011¹ (Census 2011) covering the entire country was carried out in 2011 after a lapse of 30 years (Census 1981). According to the Census 2011, the total population was 20,263,723 indicating that the annual average growth rate of the population had declined to 0.7 per cent during the inter-censal period of 2001 to 2012 from 1.2 per cent during the inter-censal period of 1981 to 2001. This is mainly attributed to declining birth rate, low death rate and an increase in out migration, reflecting the demographic transition of the population.

The second stage involves an increase in the share of the working age population as these children become adults. This is accompanied by a decline in fertility and mortality rates. The next phase is characterised by a rising proportion of old age population due to an increase in life expectancy (Navaneetham and Dharmalingam, 2012). According to the Census 2011, a significant change in the age structure of the population has occurred compared to the Census 1981, reflecting that population ageing has taken place in Sri Lanka over the last 30 years, in common with several developed and developing countries in the world. This phenomenon is due to the increase in life expectancy and a decline in fertility over the years and reflects the socio-economic developments of the country.

Chart B 7.1 Annual Population and Average Growth Rate



Source: Department of Census and Statistics

Age Structure Transition of the Population

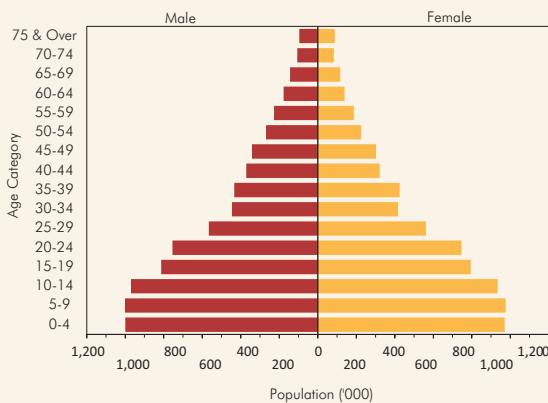
The age structure transition follows the demographic transition and involves a shift from young to old age. The age structural transition goes through three broad phases marked by an increase of one specific age group. Initially, there is an increase in the share of child population due to a fall in infant mortality rates and high fertility rates.

Dependency Ratios

With regard to age structure transition, Sri Lanka's child population (under 15 years) has decreased significantly to 25.8 per cent in the Census 2011 from 35.2 per cent in the Census 1981, while the elderly population (over 60 years) has almost doubled to 12.2 per cent in the Census 2011 from 6.6 per cent in the Census 1981. However, the working age population which is particularly prominent in the age structure has increased to 62 per cent in the Census 2011 from 58.2 per cent in the Census 1981.

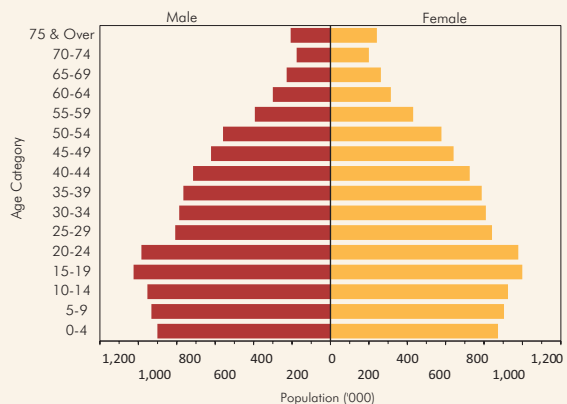
As a consequence, the total dependency ratio, which is the proportion of the child population and elderly population to the working population has declined to 61.3 per cent in the Census 2011 from 71.8 per cent in the Census 1981, mainly as a result of a decrease in the child population. This means that there are 5 working persons for 1 elderly person and 1.6 working persons for 1 dependent person (child and elderly).

Chart B 7.2 Age Structure of the Sri Lanka Population - 1981



Source: Registrar General's Department, mid-year population

Chart B 7.3 Age Structure of the Sri Lanka Population - 2011



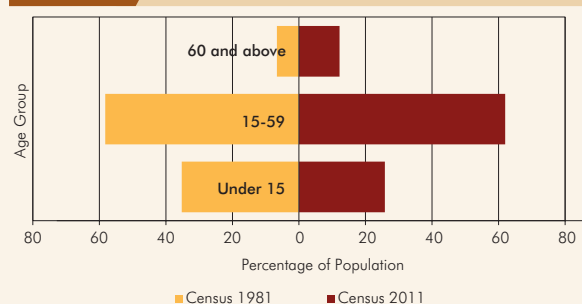
Source: Registrar General's Department, mid-year population (Data is provisional)

¹ Enumeration was carried out in February and March 2012. Data used for this analysis is based on the published preliminary report by the Department of Census and Statistics (DCS) and hence is provisional.

Table B 7.1 Age Composition and Dependency Ratio

Age Group	Census 1981	Census 2011
Under 15	35.2	25.8
15-59	58.2	62.0
60 and above	6.6	12.2
Overall Dependency Ratio	71.8	61.3
Child Dependency Ratio	60.5	41.6
Old Dependency Ratio	11.3	19.7

Source: Department of Census and Statistics

Chart B 7.4 Age Composition of Sri Lanka

Source: Department of Census and Statistics

Demographic Dividends

The United Nations Population Department defines the period of demographic dividend as a transitional time interval when the proportion of the population under 15 years falls below 30 per cent and the proportion of persons 65 years and older is below 15 per cent (De Silva, 2012). The demographic dividend is said to accrue when per capita income rises on account of higher growth in the labour force compared to the growth in the population (Navaneetham and Dharmalingam, 2012)². The first demographic dividend arises and dissipates as changes in the age structure interact with the life cycle of production and consumption. Children and elderly produce much less than they consume, whereas adults of working age, on average produce much more than they consume (Mason). Countries with heavy concentrations of populations in the working ages have an inherent advantage to produce high levels of per capita income.

According to the trends in the age structure, Sri Lanka is currently experiencing the first demographic dividend with a larger working age population which could raise total GDP, if productively employed. With elderly persons defined as above 65 years, the demographic dividend started in 1991 and is expected to continue until 2030. However, if elderly persons are defined as above 60 years (which is the mandatory retirement age in Sri Lanka), the demographic dividend will last only until 2017 (De Silva, 2012). As the benefits of the demographic dividend are available only for a limited

² According to the accounting identity, $gy = gz + (gl - gn)$, where gy - Growth rate of per capita income, gz - Growth rate of income per worker, gl - Growth rate of labour force, gn - Growth rate of total population.

time and are not automatic, but policy dependent, the window of opportunity to reap the benefits of a low dependency burden needs to be made use of immediately.

Countries that have experienced the first demographic dividend have a stable macroeconomic environment, have adopted strategies to absorb the rapidly growing workforce, including greater female labour force participation and have implemented policies to encourage high savings and investments, thereby being able to produce favourable economic results and higher per capita income.

The second phase of demographic transition will occur when the current working age population shifts to an elderly population, creating the potential for the “second dividend” of the demographic transition to take place. Economists argue that the prospects of a longer life and an extended period of retirement, act as a powerful saving incentive in the absence of widespread social security and family support systems. Therefore, population ageing raises the population share of the elderly who hold more assets than others, resulting in higher wealth accumulation and asset income. This generates higher capital per worker, boosting labour productivity and resulting in greater output levels.

As observed in the Census 2011, the increasing trend in the elderly population raises the need for proactive policy measures to use this opportunity for the benefit of economic development, rather than becoming a burden to the economy in the future. To reap the benefits of the long lasting second demographic dividend, Sri Lanka should adopt appropriate policy options such as altering retirement benefits to increase the number of years of work, legal provisions and cultural changes to discourage age discrimination, continuous human capital development to encourage the adopting of necessary skills to suit the needs of a transforming economy, to motivate the ageing population to work longer. A second demographic dividend arises to the extent that the individuals and policy makers are forward looking and respond effectively to the demographic changes that will occur in the future.

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- 3) Andrew Mason: Demographic Transition and Demographic Dividends in Developed and Developing Countries.
- 4) K. Navaneetham, A. Dharmalingam, A Review of Age Structural Transition and Demographic Dividend in South Asia: Opportunities and Challenges. Journal of Population Ageing, Vol. 5, No. 4 (2012).
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Table 4.9

Employment by Economic Activity (a)

Sector	('000 persons)					Percentage of Total Employment	
	2011	2012 (b)(c)				2011	2012 (c)
		Q2	Q3	Q4	Annual		
Agriculture	2,708	2,378	2,496	2,684	2,519	33.0	31.0
Industry	1,977	2,128	2,055	2,175	2,119	24.1	26.1
Manufacturing	1,387	1,426	1,393	1,493	1,437	16.9	17.7
Construction, Mining and Quarrying, Electricity, Gas and Water supply	590	702	662	681	682	7.2	8.4
Services	3,512	3,431	3,524	3,516	3,490	42.8	42.9
Trade and Hotels, etc.	1,232	1,267	1,274	1,267	1,269	15.0	15.6
Transport, Storage and Communication	505	515	549	513	526	6.2	6.5
Finance, Insurance and Real estate	287	255	316	278	283	3.5	3.5
Personal Services, Miscellaneous and other	1,488	1,394	1,384	1,458	1,412	18.1	17.4
Total employment	8,197	7,936	8,075	8,375	8,129	100.0	100.0
Percentage of Labour Force	95.8	96.1	95.9	96.1	96.0		

(a) Data covers all districts

(b) Provisional

(c) Quarterly Labour Force Survey for the 1st quarter of 2012 was not conducted by the DCS

Source: Department of Census and Statistics

Employment

According to the QLFS, the number of employed persons declined by 0.8 per cent to 8.129 million in 2012¹. There was a change in the composition of employed persons among the major economic sectors in 2012. The shares of the Industry and Services sectors increased to 26.1 per cent and 42.9 per cent, respectively, in 2012 from 24.1 per cent and 42.8 per cent, respectively, in the previous year, while the share of the Agriculture sector recorded a decline to 31 per cent in 2012 from 33 per cent in 2011. New employment opportunities generated through projects being implemented in the areas of construction, mining and quarrying, electricity, gas and water supply generation helped increase the contribution of the Industry sector to the total employment. Employment in the manufacturing sector also increased. Although the share of employees in the Services sector increased, the total number of employed persons in this sector declined. This was mainly due to the drop in employees in the miscellaneous sub sector. The trade and hotels; transport, storage and communication sub sectors contributed positively in generating employment in the Services sector.

¹ The QLFS conducted by the DCS defines an employed person as one who is engaged in some kind of work for pay, profit or family gain (unpaid) during the survey period. According to the status of employment, persons working as paid employees, employers, own account workers (self-employed), or unpaid family workers during the survey period were considered as employed persons in the QLFS. This includes persons with a job but not at work during the survey period. Employees absent from work due to illness, bad weather or labour disputes are also considered as employed.

In terms of employment status, the number and share of employed population engaged in the private sector, public sector and self-employment increased. The number of employees in the private sector increased by 1 per cent to 3.356 million, thereby raising its share of total employment to 41.3 per cent in 2012. The number of employees in the public sector increased by 4.3 per cent to 1.230 million and its share of total employment rose to 15.1 per cent in 2012. The number of persons in self-employment activities increased marginally to 2.592 million and its share in total employment increased to 31.9 per cent in 2012. The number of employers declined by 1.4 per cent to 231,087 and unpaid family workers

Table 4.10

Status of Employment (a)

Period	Per cent					
	Public Sector Employees	Private Sector Employees	Employers	Self Employed	Unpaid Family Workers	Total
2011	14.4	40.5	2.9	31.5	10.8	100.0
2012 (b)(c)	15.1	41.3	2.8	31.9	8.9	100.0
2nd Quarter	14.3	41.9	2.5	33.1	8.1	100.0
3rd Quarter	15.0	41.5	3.0	31.2	9.4	100.0
4th Quarter	16.1	40.5	3.0	31.4	9.0	100.0

(a) Data covers all districts

(b) Provisional

(c) Quarterly Labour Force Survey for the 1st quarter of 2012 was not conducted by the DCS

Source: Department of Census and Statistics

Table 4.11 Public Sector Employment

Sector	2010	2011	2012 (a)	Percentage Change	
				2011/2010	2012/2011 (a)
Government (b)	969,574	980,589	993,037	1.1	1.3
Semi-government (c)	250,017	249,199	251,278	-0.3	0.8
Public Sector	1,219,591	1,229,788	1,244,315	0.8	1.2

(a) Provisional
 (b) Central Government, Local Government and Provisional Councils
 (c) State Corporations, Statutory Boards and State Authorities

Source: Central Bank of Sri Lanka

declined by 18.4 per cent to 719,970 and their respective shares also decreased to 2.8 per cent and 8.9 per cent. The decline in the unpaid family workers was mainly due to the decrease in females engaged in agriculture activities in the rural sector.

According to the Public Sector Employment Survey carried out by the Central Bank, the number of employees in both government and semi-government increased. The increase in the number of employees in the government sector was primarily due to an increase in casual and contract employees in the secondary and primary level. New recruitments to the Sri Lanka Navy, Department of Civil Security and the Sri Lanka Air Force mainly contributed to this increase. Employment in semi-government increased marginally in almost all levels.

Table 4.12 Unemployment Rate (Unemployed as a percentage of Labour Force) (a)

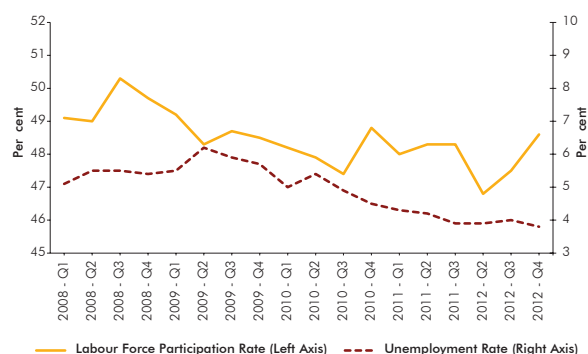
Category	2011	2012 (b)(c)			
		Q2	Q3	Q4	Annual
All	4.2	3.9	4.1	3.9	4.0
By Gender					
Male	2.7	3.0	2.9	2.7	2.8
Female	7.0	5.9	6.5	6.3	6.2
By Educational Level					
Grade 4/Year 5 and below	-	-	-	-	-
Grade 5-9/Year 6-10	3.3	3.0	3.2	3.3	3.2
GCE (O/L)	5.2	6.1	6.7	5.3	6.0
GCE (A/L) and above	9.0	8.6	7.1	7.1	7.5
By Age Group					
15-19	15.5	18.5	19.1	19.2	18.9
20-29	12.3	12.3	11.2	10.5	11.3
30-39	2.7	2.3	2.9	2.4	2.5
40 and above	0.7	0.5	1.0	0.9	0.8

(a) Data covers all districts

(b) Provisional

(c) Quarterly Labour Force Survey for the 1st quarter of 2012 was not conducted by the DCS

Source: Department of Census and Statistics

Chart 4.2 Trends in Labour Force and Unemployment (2008-2012)

Note: QLFS for the 4th quarter 2011 and 1st quarter 2012 were not conducted by the DCS

Unemployment

The unemployment rate declined to 4 per cent in 2012 from 4.2 per cent in 2011 indicating the continuation of the declining trend observed over the past few years. The total number of unemployed persons decreased to 0.336 million in 2012 from 0.358 million recorded in 2011, in line with the expansion of economic activities in all three sectors of the economy. Unemployment among females declined to 6.2 per cent in 2012 from 7 per cent in 2011 while unemployment among males was significantly lower at 2.8 per cent in 2012 although recording a marginal increase from 2.7 per cent in 2011.

The decline in unemployment among educated persons was an encouraging development. The unemployment rate of persons with GCE (A/L) and higher qualifications declined to 7.5 per cent in 2012 from 9 per cent in 2011. However, the highest rate of unemployment was reported for this category followed by those with GCE (O/L) qualifications which increased to 6 per cent in 2012 from 5.2 per cent in 2011.

Youth unemployment remained high although it declined for some age categories in 2012. The unemployment rate for the age group 20-29 years declined to 11.3 per cent in 2012 from 12.3 per cent in 2011. Unemployment was most acute for the 15-19 year age bracket which increased to 18.9 per cent in 2012 from 15.5 per cent in 2011 and could be mainly due to the mismatch between job aspirations and jobs available in the market. Continued focus on technical, vocational and IT based training will further improve the employability of the young population. The unemployment rate for the 30-39 year and over 40 year categories was lower at 2.5 per cent and 0.8 per cent, respectively, than the national average in 2012.

Foreign Employment

Overseas job opportunities for Sri Lankans increased in 2012, becoming a vital source of employment and a stable source of foreign currency inflows to the country. According to

the estimates of the Sri Lanka Bureau of Foreign Employment (SLBFE), the total number of departures for foreign employment increased by 6.3 per cent to 279,482 in 2012. Increases were observed in the categories of housemaids, clerical and related fields, middle level and professionals. The highest increase in the number of placements for overseas employment was in the category of housemaids (10,735) whose relative share in total departures increased to 42.3 per cent in 2012 from 40.9 per cent in 2011. In spite of the fact that the clerical and related fields, middle level and professional categories continue to hold a relatively small number and share of total departures, these categories recorded a significant increase within the range of 11-62 per cent in 2012. However, the categories of skilled, semi-skilled and unskilled labour recorded a decline in departures, the highest decrease being recorded by the unskilled labour category.

As observed in the last few years, the number of departures as well as the relative share of males leaving for foreign employment was higher than those of females during 2012. However, the number of females leaving for foreign employment increased by a larger proportion than the increase in males in 2012, resulting in a ratio of male and female departures of 51:49 in 2012 compared to 52:48 in 2011.

Table 4.13 Departures for Foreign Employment

Employment	2010		2011		2012 (a)	
	Number	Per cent	Number	Per cent	Number	Per cent
Total Placement	267,507	100.0	262,961	100.0	279,482	100.0
By Source						
Licensed Agents	160,500	60.0	146,293	55.6	104,216	37.3
Other	107,007	40.0	116,668	44.4	175,266	62.7
By Gender						
Male	148,001	55.3	136,307	51.8	142,331	50.9
Female	119,506	44.7	126,654	48.2	137,151	49.1
By Manpower Category						
Professional	3,057	1.1	3,848	1.5	4,300	1.5
Middle Level	6,884	2.6	6,136	2.3	9,223	3.3
Clerical & Related	7,923	3.0	9,907	3.8	16,016	5.7
Skilled Labour	71,537	26.7	67,746	25.8	66,275	23.7
Semi Skilled Labour	4,932	1.8	4,182	1.6	3,406	1.2
Unskilled Labour	60,422	22.6	63,642	24.1	62,027	22.3
Housemaid	112,752	42.1	107,500	40.9	118,235	42.3

(a) Provisional

Source: Sri Lanka Bureau of Foreign Employment

Departures for foreign employment arranged through licensed agents declined significantly while migration through other sources increased substantially during the year. The share of departures arranged through licensed agents declined to 37.3 per cent of total departures in 2012 from 55.6 per cent in 2011 while the share of departures through other sources increased to 62.7 per cent in 2012 from 44.4 per cent in 2011. Except in the age group of 30-34 years, which recorded a significant decrease, departures for foreign employment increased among all other age groups, particularly in the age group of 25-29 years (by 80.4 per cent).

Middle Eastern countries continued to be the major market for Sri Lankan labour in 2012. Departures to these countries accounted for 94.4 per cent of the total migrants in 2012, which mainly consisted of housemaids. Four Middle Eastern countries, namely, Saudi Arabia, Qatar, Kuwait and UAE together accounted for 84.3 per cent of total migrant workers in 2012 compared with 80.3 per cent recorded in 2011. Of these countries, the departures to Saudi Arabia amounted to 97,398, an increase of 42.1 per cent over the previous year. However, departures to the rest of the countries recorded a decrease, leading to a decline in the relative share of total migrants to these countries to 15.7 per cent in 2012 from 19.7 per cent in the previous year, reflecting the continued high dependence on the Middle Eastern countries for foreign employment.

A number of welfare initiatives were carried out by the SLBFE in 2012 to ensure income security and to minimise the negative impact on families. These include the “Videsha Rakiya” insurance scheme, interest subsidised housing loans and other specified loans in collaboration with the state banks, scholarships to children of migrant workers, a special unit to provide for the needs of the children of migrant workers and medical treatment for migrant workers returning to Sri Lanka due to illness.

Table 4.14 Foreign Employment Departures by Destination

Country	2011		2012 (a)		Change (a)	
	Number	Share	Number	Share	Number	Per cent
Saudi Arabia	68,552	26.1	97,398	34.8	28,846	42.1
Qatar	52,743	20.1	56,925	20.4	4,182	7.9
Kuwait	50,624	19.2	43,804	15.7	-6,820	-13.5
U A E	39,320	15.0	37,542	13.4	-1,778	-4.5
Other	51,722	19.7	43,813	15.7	-7,909	-15.3
Total	262,961	100.0	279,482	100.0	16,521	6.3

(a) Provisional

Source: Sri Lanka Bureau of Foreign Employment

With the expectation of enhancing competitive advantages in the foreign labour market, authorities continued to take initiatives to promote skilled migration while safeguarding the rights of Sri Lankan migrant workers. In order to improve the image of Sri Lanka as a source country, training programmes were arranged with a view to providing high calibre technical and skilled personnel. In addition, the policy approach which aimed at diversification of destinations and improving negotiations with host countries to increase average wages and working conditions, will help reduce vulnerabilities in the sector.

Earnings from foreign employment, which is the largest source of foreign exchange of the country, indicated strong signs of continuity. Efforts to explore new market opportunities in non-traditional markets, amendments to relevant laws to eradicate malpractices in the industry while safeguarding the interests of migrant workers and the implementation of other protection and welfare policy measures would lead to enhancement of overseas job opportunities and foreign exchange remittances to the country.

Labour Productivity

Labour productivity continued to increase in 2012. Overall, labour productivity, measured as the GDP per worker (at constant prices of 2002) increased by around 7 per cent to Rs. 374,900 per worker in 2012. The increase in productivity in the Agriculture sector was the main contributor to productivity in 2012. The Agriculture, Services and Industry sectors recorded increases of 13.7 per

BOX 8

Skills and High Quality Human Capital for Sustainable Growth

4

The GDP per capita in Sri Lanka is expected to exceed US dollars 4,000 before 2016, while making the country a US dollars 100 billion economy. In order to facilitate this outcome, and thereby transform the country into an important economic centre, the government has identified five hubs, i.e., Maritime, Aviation, Commercial, Energy and Knowledge, plus Tourism as thrust areas of economic activity.

There are several prerequisites that need to be fulfilled in the march toward sustainable growth, while avoiding the well known middle income growth trap. These include reducing imbalances and maintaining macroeconomic stability, achieving a higher level of investment, improving productivity, improving skills and enhancing the quality of human capital etc.

Empirical studies and economic literature, identify several reasons as to the importance of skills and human capital in moving to high income levels.

a) High quality human capital reduces economic slowdowns and middle-income trap: The crucial role played by high quality human capital in sustainable growth has been identified as one of the main factors that prevents growth slowdowns and “the middle income trap”. It is found that increasing the share of population with at least a secondary level of education (secondary, university and higher) reduces the probability of a slowdown, other factors being equal (Eichengreen, Park and Shin, 2013)¹. But general education has not been found to have the same effect. According to the study, it seems secondary and university education and high quality human capital matter more than “low quality” human capital for avoiding slowdowns. This is intuitive since skilled workers are needed to move up the value chain from low value added industries. High quality human capital is especially important for modern, high value added activities like business services. Further, the study comments that the lack of quality human capital helps to explain why Malaysia and Thailand have become synonymous with the middle income trap, while rapid expansion of secondary education helps to explain Korea’s successful transition from middle income to high income status.

b) Higher skills facilitate expansion of the modern service sector: There is a positive relationship worldwide between education and services development (ADB, 2012)². The ADB report claims that better-educated Asian countries tend to have larger service sectors, and a country’s service sector tends to expand as it becomes more educated. It goes on to claim that human capital

is critical to developing business services and that the abundance of skilled workers helps to explain the comparative advantage of the US and other advanced economies in business services. At the same time, Developing Asia’s lower education attainment helps explain the region’s comparative disadvantage. Also the ADB report claims that the lack of higher skills slows Asia’s transition from traditional to modern services.

c) Skills improve efficiency of economic activities: The dearth of skills affects economic activities in a variety of ways: productivity losses and idle capital, rising wage costs, increased turnover of sought-after workers, and higher placement and training costs for new workers. As a result business efficiency suffers and if the problem is widespread, whole industries and even the entire economies may suffer.

A case in point is Ireland which, having identified the need for both technical and traditional university education, established regional technical colleges and two national institutes of higher education to help build up the country’s pool of skilled workers. As a consequence of the measures, the share of tertiary students at traditional universities fell from 75 per cent in 1965 to 54 per cent by the late 1990s; at the same time, the share of tertiary students in vocational and technological education rose from 2 per cent to 37 per cent³.

What then could be considered as the pre-requisites to Improve Skills and High Quality Human Capital?

- a) Facilitation of more competitive education markets should be the guiding principle of education reforms.
- b) Although investing in primary and secondary education remains important, what is required in Asia is for Asian universities to produce enough graduates with the strong skills and qualifications required by modern service industries⁴.
- c) Removing frictions that limit the supply of skills. This arises due to occupational associations imposing barriers to new entrants into their professions.
- d) Proficiency in English language is a skills prerequisite for the growth in Business Process Outsourcing (BPO).
- e) Building a world-class tertiary education systems is key to filling human capital gaps in modern service industries. Since skills training is profitable, there should be plenty of interest in the private sector. The private sector should be allowed greater scope to meet expanding tertiary education needs, sparing public sector resources for other needs, e.g. financial support for the needy students.

¹ Barry Eichengreen, Donghyun Park, and Kwanho Shin. 2013, Growth Slowdowns Redux: New Evidence on the Middle-Income Trap, Working Paper No. 18673, National Bureau of Economic Research.

² Asian Development Bank. Asian Development Outlook 2012 Update: Services and Asia’s Future Growth.

³ Asian Development Bank. Asian Development Outlook 2008, p. 70.

⁴ Asian Development Bank. 2012, op. cit., p. 72.

- f) Opening up the domestic tertiary education market to reputable foreign universities may improve access to relevant tertiary education at home.
- g) Fostering competition among public educational institutions is also important. An example is the Republic of Korea which reduces public funding for underperforming universities to improve performance.
- h) Public-private partnership is yet another mechanism for encouraging entry into education and hence generate competition. As education reform is inevitably a costly, long-term process, the time to act is now, given the urgent need to do so.
- i) Implementing measures to stem or even reverse the “brain drain” by offering appropriate incentives.
- j) Raising the retirement age, encouraging older professionals to remain in the workforce even after they have retired, and providing fiscal incentives for firms to provide training and retraining for their workers.

The recent measures implemented by Sri Lanka to improve skills and human capital, seems to have considered some of the above mentioned pre-requisites.

- a) Earmarking “knowledge” as one of the hubs to “make significant changes in the education structure of universities, technical colleges and tertiary and secondary education institutions”⁵.

⁵ Mahinda Chintana: Vision for the Future, p.18.

cent, 5.3 per cent and 2.9 per cent, respectively, in 2012. Labour productivity has increased steadily over the last few years, recording an average increase of around 6 per cent per year.

Enhancement in productivity in all sectors of the economy is essential in order to remain competitive, penetrate new markets and attract more investors for sustainable economic growth. For Sri Lanka is to be recognized as an investment destination, it is necessary that the present infrastructure development initiatives be complemented adequately with improved labour productivity. Education, research and development will play a vital role in creating new knowledge in the form of discoveries and innovations. Further, modernizing production processes and refurbishing existing factories will facilitate increased capacity

- b) Implementing the World Bank assisted Higher Education for the Twenty-first Century (HETC) project (2011-2016) with the objective of enhancing the capacity of the higher education system and delivering quality higher education services.
- c) Attempting to increase the world ranking of local universities while improving the infrastructure in universities. Activities planned consist of establishment of world class foreign universities, knowledge cities, university townships etc.
- d) Promoting English as a life skill. The three -phase project initially concentrated on training English teachers and phase three involves ICT assisted distance learning of English.
- e) Establishing Nenasalas (Knowledge Centres) to spread ICT services to the rural and semi-urban population. So far, 679 Nenasalas have been established.

Some of the other pre-requisites stated above should also be implemented in Sri Lanka in order to complement the current initiatives underway in the education sector. For example, setting up advanced technical colleges of high reputation would contribute towards increasing the supply of skills required in construction and other related fields, thereby reducing the cost of such skills. Another initiative that could be taken is to develop a strong regulatory and accreditation framework for private sector educational institutions in the country.

utilization and enhancement of efficiency of labour, which in turn will contribute to improved productivity in the Industry sector. Creating more favourable working conditions, developing employee skills, setting up effective worker motivation and incentive mechanisms and introducing performance related compensation packages for workers etc. will facilitate improvements in labour productivity.

Table 4.15 Labour Productivity by Major Economic Sector

	2011	2012 (a)
GDP at Constant (2002) Prices, Rs.million	2,863,715	3,047,277
Agriculture	320,178	338,625
Industry	838,932	925,335
Services	1,704,605	1,783,318
Labour Productivity, Rs.'000 per employed person (b)	349.4	374.9
Agriculture	118.2	134.4
Industry	424.3	436.7
Services	485.4	511.0

(a) Provisional
(b) Data covers all districts

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

Table 4.16

Strikes in Private Sector Industries

Year	Plantation			Other (a)			Total		
	No. of Strikes	Workers Involved	Man Days Lost	No. of Strikes	Workers Involved	Man Days Lost	No. of Strikes	Workers Involved	Man Days Lost
2009	2	300	300	6	4,720	7,365	8	5,020	7,665
2010	9	3,185	23,037	6	1,923	2,034	15	5,108	25,071
2011	19	6,692	23,513	8	3,807	15,673	27	11,039	39,186
1st Quarter	1	106	106	1	1,500	5,356	2	1,606	5,462
2nd Quarter	4	433	3,028	3	1,272	7,697	7	1,705	10,725
3rd Quarter	6	1,062	2,102	3	970	2,490	9	2,572	4,592
4th Quarter	8	5,091	18,277	1	65	130	9	5,156	18,407
2012 (b)	14	4,278	25,043	20	5,626	10,774	34	9,964	25,285
1st Quarter	8	1,991	5,743	12	4,330	5,959	20	6,321	1,170
2nd Quarter	2	822	13,208	2	360	856	4	1,242	14,064
3rd Quarter	1	835	1,670	2	287	2,541	3	1,122	4,211
4th Quarter	3	630	4,422	4	649	1,418	7	1,279	5,840

(a) Includes semi-government institutions and all other private institutions.

Source: Department of Labour

(b) Provisional

Increased application and usage of modern technology, especially IT enabled services will improve productivity in the Services sector. Programmes associated with modern technology in the fields of communication, commercial, professional, educational, medical, maritime and aviation will be instrumental in improving productivity. Improvements in economic as well as social infrastructure facilities would also have a positive impact on the productivity in the sector. Furthermore, human resource development in tourism related and environmentally sustainable activities will improve productivity in the Services sector.

Increased mechanization in agriculture is likely to result in continuous growth of productivity in the Agriculture sector. Use of improved seed varieties, proper usage of fertilizer and rehabilitation of irrigation networks will further contribute towards improving productivity. The lower productivity level in the Agriculture sector reflects the weak dynamism in the sector, largely due to deep-rooted structural weaknesses. This raises concerns as this sector still absorbs about 30 per cent of the total labour force. Therefore, effective steps to address weaknesses through a market based sustainable strategy are needed to improve both agricultural production and factor productivity in the sector.

Labour Relations

Although the total number of strikes increased, the number of employees involved in strikes and the total man days lost in the private sector declined significantly in 2012. The total number of strikes that occurred in private sector industries increased to 34 in 2012 from 27 in the previous year, entirely due to increased strikes in sectors other than the plantation sector. Employees involved in strikes and the total man days lost decreased by 9.7 per cent and 35.5 per cent, respectively in 2012. Although the number of strikes and the workers engaged in strikes dropped significantly in the plantation sector, the total man-days lost increased due to prolonged trade union actions taken by the workers to achieve their demands.

The maintenance of a sound working environment through better labour relations and continuous dialogue among the three related parties, i.e., employer, employee and regulators are important for industrial harmony and higher productivity. Following the declining trend observed since 2000, the number of labour disputes reported in 2012 further declined to 3,702 from 3,756 in 2011. Inquiries in respect of these disputes were conducted by the Department of Labour with the objective of settlement through

conciliation. In addition, settlement of complaints made in connection with the termination of service and conducting better dialogue through awareness programmes were also carried out by the Department. Existing legal provisions were realigned to meet current requirements with the objective of creating healthy relationships between the employer and employee while conferring benefits to the working population of the country.

Labour Market Reforms

The Department of Labour took several steps to comply with the provisions of the **Employees' Provident Fund (Amendment) Act No. 2 of 2012**. The amendments include the assigning of an identification number to employees and employers using NIC number, furnishing particulars by electronic media by employers with over 50 employees and facilitating employees who are contributing to the EPF to withdraw funds not

exceeding 30 per cent from the balances held in their individual accounts for the purposes of housing and medical treatment.

The Department of Labour also proposed to amend the Wages Boards Ordinance No. 27 of 1941 to introduce a restriction on hiring labour on contract basis where such contract labour affects the labour already in the core functions of the business of the employer. The draft Bill is presently pending approval of the Parliament. A new Occupational Safety and Health Ordinance is proposed to replace the Factories Ordinance No. 45 of 1942 to provide for the safety, health and welfare of employees, encompassing all work places in accordance with modern standards. In addition, amendments to existing laws have been identified to reduce the gap between the conventions of the International Labour Organization and the prevailing laws of the country.