

# 4

## PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY

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### 4.1 Overview

**Inflation, as measured by the change in the Colombo Consumers' Price Index (CCPI) (2006/07=100) computed by the Department of Census and Statistics (DCS), remained at single digit levels during 2014.** By end 2014, year-on-year and annual average inflation were recorded at 2.1 per cent and 3.3 per cent, respectively. Inflationary pressure remained low during 2014 due to the combined impact of prudent monetary management, moderation in international commodity prices, relatively stable exchange rate, fiscal policy measures taken towards addressing supply side disturbances and well managed inflation expectations. In addition, improvements in domestic supply of fresh food items during the early months of the year and the downward revision of administered prices of electricity, water, petrol, diesel, kerosene and LP Gas contributed to bring down the general price level and maintain inflation at low levels. Meanwhile, core inflation which reflects the underlying long-term trend in inflation remained at low levels with less volatility. Real wages of employees in all sectors increased, supported by both the low level of inflation and the increase in nominal wages during the year. In line with the expansion of economic activity, the economy's capacity to absorb the labour force in 2014 also

strengthened and new employment opportunities grew at a faster rate than the expansion in the labour force resulting in a drop in the overall unemployment rate. However, the Labour Force Participation Rate (LFPR), declined marginally as a result of higher increase in the working age population than that of the labour force. The share of the number employed in the Agriculture sector declined, while those of the Industry and Services sectors increased during 2014, compared to 2013. The Services sector continued to dominate as the foremost contributor for increased employment in the economy. Employment in the public sector increased in 2014. Further, foreign employment continued to increase due to attractive remuneration amidst the availability of employment opportunities in the domestic market resulting in a labour shortage. The total number of departures for foreign employment increased, solely due to the increase of male migrants, reflecting the effectiveness of measures taken by the authorities to reduce housemaid departures. Departures under professional, middle level, clerical jobs and semi-skilled labour categories increased during the year. Meanwhile, labour productivity levels in all three key sectors of the economy continued to increase.

## 4.2 Prices

### Price Movements and Contributory Factors

#### Colombo Consumers' Price Index (CCPI)

**CCPI (2006/07=100), the official index that measures movements in consumer prices in Sri Lanka, increased at a moderate rate during 2014.** Accordingly, annual average headline inflation decelerated continuously from 6.5 per cent in January 2014 to reach 3.3 per cent in December 2014. Year-on-year inflation declined in general, although it exhibited mixed movements during the year. It decreased from January to February and stabilised at the same level in March and increased again in April 2014, due to both the seasonal demand and the base effect. The year-on-year inflation rate showed significant decreases in May and June 2014 due to the high base that prevailed in the corresponding period of 2013. Prices of agricultural commodities increased as a result of low supply due to adverse weather conditions which prevailed in major cultivating areas. As a result, the year-on-year inflation rate increased in July 2014. However, with the availability of the Yala harvest in the market and subsequent

price moderation along with the revision of fuel prices and electricity tariff, inflation dropped in October. This declining trend in the year-on-year inflation rate continued further recording 1.5 per cent in November 2014 which was the lowest rate of inflation for the year, supported by the reduction of the water bill value and further reduction of fuel prices. It increased again to 2.1 per cent in December 2014 due to crop damages and disruptions in distribution channels caused by heavy rainfall.

#### Price Movements in the Food Category

**Year-on-year Food inflation exhibited an overall increasing trend during the year.** The Food inflation rate was 1.3 per cent in January and remained at low levels during the first quarter. However, it increased significantly thereafter exhibiting mixed movements and reached 7.0 per cent in December 2014. The annual average Food inflation rate followed a declining trend in general and reached 3.8 per cent in December from 7.1 per cent recorded in January 2014.

**During 2014, the weighted average price of rice, which is a key item in the Food category remained higher than that in 2013.** This price increase was caused by the decline in paddy production in both Maha and Yala seasons as a result of the adverse weather conditions that prevailed during both seasons. The price increase was further fuelled by the insufficiency of rice stocks as harvests of several preceding seasons were also not up to the normal levels. In addition, competition from manufacturers of rice based products to purchase rice also caused some price pressures. To address the supply constraints in the domestic market and to ease the price pressure to a certain extent, effective tariff on imported varieties of rice was reduced to Rs. 5 per kg by introducing a Special

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

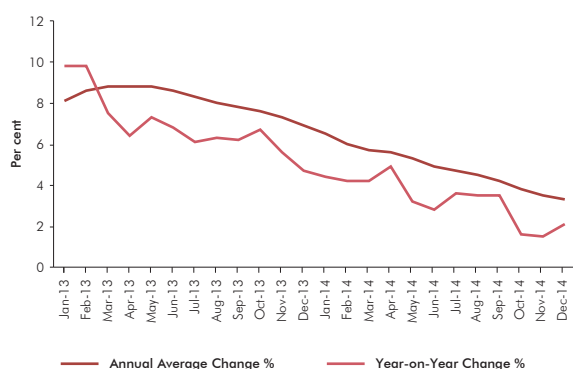


Table 4.1

## Changes in Price Indices

Index	Index (year end)		Year-on-Year Percentage Change		Annual Average Percentage Change	
	2013	2014 (a)	Dec.2013/ Dec.2012	Dec.2014/ Dec.2013 (a)	2013/2012	2014/2013 (a)
	CCPI (2006/07=100)	176.5	180.2	4.7	2.1	6.9
GDP Deflator (2002=100)	265.6	279.0	-	-	6.7	5.1

(a) Provisional

Source: Department of Census and Statistics

Commodity Levy (SCL) in place of all tariffs that existed on rice imports with effect from April 09, 2014 and this was further reduced to Rs. 1 per kg with effect from September 2014. As a result, increased rice imports helped to minimise the supply shortage in the market. In addition, the prevailed ceiling on the price of rice which was far below the market price was also revised upward from April 09, 2014. Further, the maximum retail prices of imported rice were reduced at Lak Sathosa outlets from April 27, 2014. These measures helped moderate the price of rice to some extent.

The weighted average price of vegetables declined slightly in 2014 compared to the previous year. The prices of almost all the vegetable varieties were relatively low during the early months of 2014 as a result of improved supply conditions. However, prices in general began to move upward from May onwards with deteriorated supply conditions, and exerted some upward pressure on overall inflation. Nevertheless, vegetable prices started to decline since August 2014, as the supply from the Yala harvest reached the market. However, the prices started to rise again from October as a combined effect of seasonal factors and adverse weather conditions.

The weighted average price of fresh fish and seafood increased by 2.5 per cent in 2014 compared to 2013. The price of both large and small fish remained low during January to April 2014, following the normal

seasonal pattern. However, prices of fresh fish increased gradually thereafter, owing to unfavourable seasonal weather conditions in the coastal areas. Prices declined in October and November due to improved supply from the inter monsoon fishing season. However, prices increased in December 2014 due to seasonal demand. Meanwhile, the price of eggs decreased by 9.3 per cent in 2014 due to low demand for eggs.

Despite increased coconut production in 2014, the price of coconut remained elevated from January to April 2014 mainly due to very high industrial demand from coconut processing industries. However, prices followed a gradual declining trend thereafter and picked up in the latter part of the year. Meanwhile, the price of coconut oil remained at the same level as in December 2013 until July 2014 and declined thereafter. The overall

Table 4.2 Contribution to Annual Average Inflation by Sub-category (a)

Index	2013		2014	
	Percentage		Percentage	
	Change	Contribution	Change	Contribution
CCPI (All Items)	6.9	100.0	3.3	100.0
Food and Non Alcoholic Beverages	7.9	52.0	3.8	53.1
Non Food	6.1	48.0	2.8	46.9
Clothing and Footwear	5.4	2.4	0.4	0.4
Housing, Water, Electricity, Gas and Other Fuels	10.7	30.8	1.1	7.1
Furnishing, Household Equipment and Routine Household Maintenance	4.0	1.8	2.3	2.1
Health	1.7	1.2	8.5	11.9
Transport	4.6	9.1	4.5	18.6
Communication	0.0	0.0	4.0	3.0
Recreation and Culture	4.1	0.8	2.2	0.9
Education	0.9	0.5	0.5	0.5
Miscellaneous Goods and Services	4.2	1.5	3.2	2.3

(a) Based on CCPI (2006/07=100) Sources: Department of Census and Statistics Central Bank of Sri Lanka

Table 4.3

Retail Prices of Key Imported and Domestically Produced Items

Item	Unit	CCPI (2006/07=100) Weight %	Price - Rs.						Percentage Change				
			Annual Average			Dec. 2012	Dec. 2013	Dec. 2014	Annual Average		Year-on-Year		
			2012	2013	2014				2013/ 2012	2014/ 2013	Dec.2013/ Dec.2012	Dec.2014/ Dec.2013	
Domestic	Rice - Samba	1 kg	1.96	70.15	72.29	84.14	74.06	72.21	92.77	3.1	16.4	-2.5	28.5
	Rice - Kekulu (red)	1 kg	0.85	57.08	59.87	75.28	60.58	60.78	91.90	4.9	25.7	0.3	51.2
	Rice - Kekulu (white)	1 kg	0.60	56.26	59.28	71.75	60.46	60.44	78.19	5.4	21.0	0.0	29.4
	Rice - Nadu	1 kg	0.35	59.67	61.59	78.37	62.73	63.31	87.56	3.2	27.3	0.9	38.3
	Coconut (medium)	nut	1.84	34.76	43.44	45.63	38.22	47.64	47.04	25.0	5.0	24.7	-1.3
	Fish - Kelawalla	1 kg	1.11	694.14	697.33	741.22	718.18	694.60	744.35	0.5	6.3	-3.3	7.2
	Beans	1 kg	0.43	157.60	166.00	163.87	160.65	166.16	207.49	5.3	-1.3	3.4	24.9
	Brinjals	1 kg	0.19	99.25	107.73	110.34	113.28	92.58	137.20	8.5	2.4	-18.3	48.2
	Eggs	each	0.37	11.29	14.06	12.75	14.49	14.12	12.78	24.5	-9.3	-2.5	-9.5
Imports	Sugar	1 kg	1.12	101.04	100.95	101.71	105.50	102.41	100.37	-0.1	0.7	-2.9	-9.5
	Milk Powder - Anchor	400g	3.21	302.35	325.00	379.13	325.00	325.00	386.00	7.5	16.7	0.0	18.8
	Red Dhal	1 kg	0.73	145.07	156.34	162.80	146.18	157.05	170.34	7.8	4.1	7.4	8.5
	Wheat Flour	1 kg	0.20	90.92	98.13	97.80	98.46	97.93	97.84	7.9	-0.3	-0.5	-0.1

Source: Department of Census and Statistics

impact of these price movements resulted in an increase in the price of both coconut and coconut oil, on average, by 8.1 per cent and 9.7 per cent, respectively, during 2014 compared to the previous year.

**Fiscal policy measures were taken towards addressing supply side disturbances where such instances were observed and in certain situations to safeguard local producers.** Accordingly, SCL on imported commodities such as potatoes and big onions were increased on several occasions during the year, to discourage imports during the local harvesting seasons. In addition, importation of potatoes was suspended temporarily in September 2014. Accordingly, average price of potatoes increased by 11.3 per cent in 2014 compared to 2013, while average prices of big onions and red onions recorded declines of 19.9 per cent and 35.4 per cent, respectively, in the reference period.

**The improvement in the supply of fresh food due to measures taken to improve food security in the country and integration**

**of the Northern and Eastern provinces into the production and distribution process, bolstered declining prices of fresh food during the last few years.** However, it should be noted that measures taken to improve the distribution channels and storage facilities should be further strengthened to reduce the disparity between prices at producer's and consumer's levels. Further, the introduction of high yielding varieties, would also help to further lower the prices of fresh food varieties.

**Domestic price adjustments of most of the imported food items during 2014 were mostly in line with their price movements in the international market.** Among the imported food items, prices of dhal and sugar increased by 4.1 per cent and 0.7 per cent, respectively, during 2014, compared to the previous year. Price of imported milk powder was increased by Rs. 61 per 400g pack and Rs. 152 per 1 kg pack, with effect from February 01, 2014. Nevertheless, the price of locally produced milk powder was reduced by Rs. 100 per kg as per the Budget in October 2014 with the view of encouraging the consumption of

domestically produced milk powder. Further, the relatively stable exchange rate during the period helped maintain lower prices of imported commodities.

### Price Movements in the Non-food Category

**Inflation in the Non-food category which accounts for 58.97 per cent of the CCPI basket, exhibited an overall declining trend throughout the year.** Non-food inflation was

higher than Food inflation from January to April, and was the main contributor to overall year-on-year inflation during that period. Thereafter, the contribution to overall inflation from this category declined rapidly. It is noteworthy that the Non-food category contributed negatively from October to December 2014 and helped to off-set the upward pressure exerted from the Food category to some extent. Consequently, the year-on-year Non-food inflation rate declined significantly from 7.1 per cent in January 2014

**Table 4.4** Revisions to Key Items with Administered Prices (2012-2014)

Item	Unit	Price (year end) - Rs.			Percentage Change		
		2012	2013	2014	2013/2012	2014/2013	
Diesel - CPC	1 ltr.	115.00	121.00	111.00	5.2	-8.3	
Diesel - LIOC	1 ltr.	121.00	121.00	111.00	0.0	-8.3	
Kerosene	1 ltr.	106.00	106.00	81.00	0.0	-23.6	
Petrol	1 ltr.	159.00	162.00	150.00	1.9	-7.4	
Gas-Litro	12.5 kg	2,246.00	2,396.00	1,896.00	6.7	-20.9	
Gas-Laugs	12.5 kg	2,246.00	2,396.00	1,896.00	6.7	-20.9	
Furnace Oil (1500)	1 ltr.	90.00	90.00	90.00	0.0	0.0	
Furnace Oil (3500)	1 ltr.	90.00	90.00	90.00	0.0	0.0	
Electricity - Fixed Charge	Tariff Blocks	First 30 units	30.00	30.00	30.00	0.0	0.0
		31 - 60 units	60.00	60.00	60.00	0.0	0.0
		61 - 90 units	90.00	90.00	90.00	0.0	0.0
		91 - 180 units	315.00	315.00	480.00	0.0	52.4
		Above 180 units	315.00	420.00	540.00	33.3	28.6
Electricity - Unit Charge (a)	Tariff Blocks	< 60 units					
		First 30 units	3.00	3.00	2.50	0.0	-16.7
		31 - 60 units	4.70	4.70	4.85	0.0	3.2
		> 60 units					
		First 60 units	-	10.00	7.85	-	-21.5
		61 - 90 units	7.50	12.00	10.00	60.0	-16.7
		91 - 120 units	21.00	26.50	27.75	26.2	4.7
		121 - 180 units	24.00	30.50	32.00	27.1	4.9
		Above 180 units	36.00	42.00	45.00	16.7	7.1
		Electricity - Fuel Adjustment Charge (a)	Tariff Blocks	First 30 units	-	-	-
31 - 60 units	-			-	-	35.0	-
61 - 90 units	-			-	-	10.0	-
Above 90 units	-			-	-	40.0	-
Bus Fare						7.0	-
Water - Unit Charge (b)	Tariff Blocks	First 05 units	8.00	8.00	8.00	0.0	0.0
		06 - 10 units	11.00	11.00	11.00	0.0	0.0
		11 - 15 units	20.00	20.00	20.00	0.0	0.0
		16 - 20 units	40.00	40.00	40.00	0.0	0.0
		21 - 25 units	58.00	58.00	58.00	0.0	0.0
		26 - 30 units	88.00	88.00	88.00	0.0	0.0
		31 - 40 units	105.00	105.00	105.00	0.0	0.0
		41 - 50 units	120.00	120.00	120.00	0.0	0.0
		51 - 75 units	130.00	130.00	130.00	0.0	0.0
		Above 75 units	140.00	140.00	140.00	0.0	0.0

(a) With effect from 16.02.2012 fuel adjustment charge which is only applicable to the monthly energy charge was reimposed.

With effect from 20.04.2013 fixed charges, unit charges and the fuel adjustment charge of electricity were revised upward.

With effect from 16.09.2014 fixed charges and unit charges of electricity were revised downward while fuel adjustment charge was removed.

(b) With effect from 01.11.2014 a 10 per cent reduction on the total bill value was applied for domestic users whose usage is less than 25 units.

Source: Central Bank of Sri Lanka

to -2.0 per cent in December 2014. The annual average Non-food inflation rate also declined from 5.9 per cent in January 2014 to 2.8 per cent in December 2014. Within the Non-food category, prices of the items in the sub-categories of Clothing and Footwear; Furnishing, Household Equipment and Routine Household Maintenance; Health; Communication; Recreation and Culture; Education and Miscellaneous Goods and Services sub-categories, increased modestly during the year exerting only a minimal pressure on inflation.

**The price of non-food administered items remained unchanged until August 2014 and declined significantly thereafter.** The contribution to year-on-year inflation from non-food administered items was significantly high from January to April 2014 due to the upward revision of the electricity tariff in April 2013. The base reference for year-on-year change was elevated in May 2014 and remained at the same level until October 2014. As a result, the contribution to year-on-year inflation from these items dropped abruptly in May 2014 and remained at low levels until August 2014. The Fuel Adjustment Charge (FAC) on electricity was removed and the tariff was revised in September 2014 which resulted in an approximately 25 per cent reduction in the total electricity bill. Fuel prices were also reduced during the same period. The partial effect of these price revisions contributed to moderate inflationary pressure to some extent in September 2014. The full impact of the above price revisions and the price reduction of LP Gas in October 2014 contributed to ease year-on-year inflation significantly since October 2014. Further reductions in prices of fuel and LP Gas; and the 10 per cent reduction on the value of the total water bill of domestic users, whose usage is less

than 25 units, contributed to bring down inflationary pressure to a greater extent, during November to December 2014.

**During the year 2014, prices of fuel were subjected to several downward revisions to pass the benefit of the decline in international energy prices to consumers.** The domestic price of a 12.5 kg cylinder of LP Gas was reduced on several occasions and led to a 20.9 per cent decrease in price from end 2013 to end 2014. The price of a litre of petrol and diesel decreased by 7.4 per cent and 8.3 per cent, respectively from end 2013 to end 2014. Despite the decline in fuel prices, bus and train fares remained unchanged during the year 2014.

### Core Inflation

**Core inflation, which mainly represents the movement of items of which prices are not subject to high volatility, decreased gradually from 4.1 per cent in January to 3.0 per cent in June 2014 on an annual average basis, and thereafter increased gradually to reach 3.5 per cent in December 2014.** The year-on-year core inflation rate, which showed a mixed movement with low volatility, decreased marginally from 3.5 per cent in January to 3.2 per cent in December 2014. The benign level and low volatility of Core inflation reflects that the demand driven inflationary pressure was well contained.

### GDP Deflator

**The GDP deflator, which measures price movements of all domestically produced goods and services in the overall economy decelerated, supported by price decelerations in all three major economic sectors.** Accordingly, the overall GDP deflator declined to 5.1 per cent in 2014 from 6.7 per cent recorded in 2013.

## BOX 4

## Launch of a Producer's Price Index

The Producer's Price Index (PPI) is used as a measure of the behaviour of average prices received by domestic producers for goods and services. The PPI serves several key roles in macroeconomic analyses. The PPI is used as a leading indicator for assessing movements of wholesale and retail inflationary pressures in the domestic markets, as price changes in the stage of production are expected to transmit to the changes in consumer prices. Hence, the PPI serves as an important leading indicator for the conduct of the monetary policy. Investors closely monitor movements in the PPI, as they signal future movements in consumer price inflation, and enable them to estimate potential cash flow earnings from sales. Comparisons among the PPIs of trading partners help exporters to assess inflation differentials among them and plan their production and pricing accordingly. The PPIs are useful to deflate current values into constant values, for the compilation of national accounts estimates.

The Department of Census and Statistics (DCS) has taken steps to compile a new PPI based on its findings of the recently conducted Economic Census, and it is expected to be released in mid 2015. Weights of this new PPI are based on the annual value of production recorded in 2010. The index is expected to cover sectors of Agriculture, Manufacturing and Utilities (electricity and water) initially, and expand to incorporate activities in the Services sector at a later stage. The Agriculture sector covers prices of 161 agricultural products in all 9 provinces of the country. The Manufacturing sector covers 75 per cent of establishments with 25 or more employees. This sample accounts for 85 per cent of the total value of output in the sector classified under 13 categories based on the International Standard Industrial Classification (ISIC)<sup>1</sup>.

<sup>1</sup> The ISIC is the formal classification of economic activities based on internationally agreed standards, published by the United Nations.

Utilities sector covers electricity generation and distribution by the Ceylon Electricity Board (CEB) and water collection, purification and distribution by the National Water Supply & Drainage Board (NWS&DB). The index is compiled following international guidelines, based on the PPI manual of the International Monetary Fund (IMF). All economic activities covered in the index are classified as per ISIC revision 3. The DCS expects to incorporate further improvements to the index in the future, which include more Services sector activities, valuation in terms of basic prices<sup>2</sup>, instead of producers' prices and disseminate information on product level indices.

The launch of a PPI simultaneously with the rebasing of national accounts will serve the purpose of having more reflective price indices as deflators in compiling the Gross Domestic Product (GDP). The Wholesale Price Index (WPI) computed by the Central Bank of Sri Lanka (CBSL) served the purpose of a PPI in the macroeconomic analyses process for almost four decades, since its introduction. With the evolution of the production structure of the economy, WPI was also treated with required revisions from time to time, in order to shape the index to represent the changes occurred. Nevertheless, methodologies of compiling indices have also evolved with time. Hence, recognising the importance of replacing WPI with a more reflective and flexible index, CBSL will discontinue compiling the WPI, once the new PPI is launched, as WPI's purpose will be served by a more current and reflective index.

## References:

1. *Producer Price Indices – Comparative Methodological Analysis*, Organisation for Economic Co-operation and Development (2011)

2 Basic price is the value of a good or service received by the producer at the point of sale, excluding any taxes on products but it includes any subsidies received by the producer that lower the price charged to the purchaser.

The Agriculture sector deflator declined from 7.0 per cent in 2013 to 3.0 per cent in 2014. This deceleration in prices was observed in all sub-sectors in the Agriculture sector, except

for Rubber, Minor Export Crops, Livestock and Plantation Development sub-sectors. The Industry sector deflator decelerated to 5.5 per cent in 2014 from 7.3 per cent recorded in the previous year, with decelerations in respective deflators of all sub-sectors in the sector. Services sector deflator decelerated to 5.1 per cent in 2014 from 6.3 per cent recorded in 2013, with decelerations in Domestic Trade, Transport, Government Services and Private Services sub-sectors. During the year, inflation remained at a lower level than the GDP deflator, reflecting that there has been a gain in terms of trade.

**Table 4.5** Sectoral Deflators and GDP Deflator

Sector	(2002=100)				
	Index			Percentage Change	
	2012	2013 (a)	2014 (b)	2013/2012 (a)	2014/2013 (b)
Agriculture	247.5	264.8	272.7	7.0	3.0
Industry	258.1	276.9	292.0	7.3	5.5
Services	244.3	259.7	272.9	6.3	5.1
<b>GDP</b>	<b>248.9</b>	<b>265.6</b>	<b>279.0</b>	<b>6.7</b>	<b>5.1</b>

(a) Revised  
(b) Provisional

Source: Department of Census and Statistics

### 4.3 Wages

**Nominal wages of employees in all three sectors, namely, public, formal private and informal private sectors increased during 2014.**

This increase in nominal wages was significant among the employees in the public sector, while that of the formal and informal private sectors were moderate. These increases in nominal wages resulted in a gain in real wages for employees in all three sectors due to the low inflation environment.

#### Public Sector Wages

**The nominal wages of public sector employees, as measured by the new Public Sector Wage Rate Index<sup>1</sup> increased in 2014.**

This increase was mainly due to the increase of the monthly Cost of Living Allowance (COLA) payable to public sector employees by Rs. 1,200 since January 2014 in Budget 2014 and the Interim allowance of Rs. 3,000 paid to all public sector employees with effect from November 2014, in the 2015 Budget. Accordingly, the nominal wage rate indices of all four categories namely; senior level officers, tertiary level officers, secondary level officers and primary level officers, rose significantly by 7.0 per cent, 9.8 per cent, 10.7 per cent and 11.6 per cent, respectively, in 2014, compared to the respective increases of 3.6 per cent, 6.0 per cent, 6.5 per cent and 6.8 per cent in 2013. As a result, the overall nominal wage rate index of central government employees increased by 10.5 per cent in 2014 compared to the 6.3 per cent increase recorded in the previous year.

<sup>1</sup> Recognising the need to have a more representative Public Sector Wage Rate Index, a new index was compiled by CBSL. This new index is replacing the existing index, which only covers non executive government employees and school teachers. The base year for the new index is 2012. The new index improves the coverage with all levels of public sector employees, under the disaggregation of Senior, Tertiary, Secondary and Primary levels. The base period employment structure was based on a special Annual Public Sector Employment Survey (APSES) conducted in 2012. Initial salary scales of specific occupations and due allowances as specified in the Public Administration Circular No. 06/2006 issued by the Ministry of Public Administration and Home Affairs on April 25, 2006 were used to construct the index.

**Meanwhile, all categories of public sector employees enjoyed a considerable real wage increase in 2014.** Real wages of senior, tertiary, secondary and primary level officers rose significantly by 3.6 per cent, 6.3 per cent, 7.2 per cent and 8.1 per cent, respectively, in 2014, compared to the respective decreases of 3.2 per cent, 0.9 per cent, 0.5 per cent and 0.1 per cent in 2013. The impact of the above wage developments resulted in a 7.0 per cent increase in the overall real wage rate index of central government employees in 2014 against the 0.6 per cent decline observed in 2013. In addition to the nominal wage increase in the sector, the relatively low level of inflation maintained during the year contributed heavily towards this positive development in real wages experienced by the employees in the public sector.

#### Formal Private Sector Wages

**Nominal wages of the employees in the formal private sector recorded an increase in 2014 as measured by the minimum wage rate indices of employees whose wages are governed by the Wages Boards Trades.**

Accordingly, the wage rate indices of the Agriculture; Industry and Commerce; and Services sectors increased by 2.8 per cent, 8.4 per cent and 3.2 per cent, respectively, in 2014. Consequent to the set-back in the Agriculture sector owing to the adverse weather conditions that prevailed in 2014, nominal wages of the sector increased marginally during the year. Employees in the Industry and Commerce; and Services sectors received a modest increase in nominal wages, following increases of 32.9 per cent and 21.0 per cent, respectively received in 2013. The Agriculture sector, which recorded only a marginal wage increase accounts for 66 per cent in the



Table 4.6

## Wage Rate Indices

Employment Category	Index						Percentage Change					
	Nominal			Real (a)			Nominal			Real (a)		
	2012	2013	2014 (b)	2012	2013	2014 (b)	2012	2013	2014 (b)	2012	2013	2014 (b)
<b>1. Government Employees</b>												
Central Government Employees (2012=100)	100.0	106.3	117.5	103.6	103.0	110.2	3.5	6.3	10.5	-3.7	-0.6	7.0
Primary Level Officers	100.0	106.8	119.2	103.6	103.5	111.8	3.2	6.8	11.6	-3.9	-0.1	8.1
Secondary Level Officers	100.0	106.5	117.9	103.6	103.1	110.6	3.4	6.5	10.7	-3.8	-0.5	7.2
Tertiary Level Officers	100.0	106.0	116.4	103.6	102.7	109.2	3.6	6.0	9.8	-3.6	-0.9	6.3
Senior Level Officers	100.0	103.6	110.8	103.6	100.3	103.9	3.9	3.6	7.0	-3.3	-3.2	3.6
<b>2. Workers in Wages Boards Trades</b>												
All Wages Boards Trades (1978=100)	3,662.0	3,869.2	4,012.2	106.2	104.9	105.3	22.2	5.7	3.7	13.8	-1.2	0.4
Workers in Agriculture	4,433.0	4,435.9	4,560.9	128.6	120.3	119.7	29.3	0.1	2.8	20.4	-6.4	-0.5
Workers in Industry and Commerce	2,402.1	3,191.6	3,459.1	69.7	86.5	90.8	0.0	32.9	8.4	-6.9	24.1	5.0
Workers in Services	1,851.8	2,241.5	2,313.2	53.7	60.7	60.7	0.0	21.0	3.2	-6.9	13.1	0.0

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

(b) Provisional

Sources: Department of Labour  
Central Bank of Sri Lanka

overall index. As a result, the composite wage rate index rose only by 3.7 per cent in 2014 in nominal terms, compared to an increase of 5.7 per cent recorded in the previous year.

**Real wages of employees in the formal private sector, showed a marginal increase in 2014.** Employees in the Industry and Commerce sector enjoyed a real wage increase of 5.0 per cent, while those in the Agriculture sector suffered a real wage erosion of 0.5 per cent in 2014. Further, it is noteworthy that the real wages of the employees in the above two sectors recorded a gain of 24.1 per cent and an erosion of 6.4 per cent in real wages, respectively in 2013. However, the real wage of the Services sector remained unchanged during the year compared to a 13.1 per cent increase in 2013. Since the impact of real wage loss of employees in the Agriculture sector was less than the impact of the real wage gain in the Industry and Commerce sector, due to the weight structure of the index, the composite real wage rate index of the formal private sector recorded a marginal increase of 0.4 per cent in 2014 compared to the decline of 1.2 per cent in the previous year.

## Informal Private Sector Wages

**Average daily wages in the informal private sector increased in both nominal and real terms in 2014 on an overall basis.** In the informal private sector, wages are determined by the market forces and nominal wages get adjusted according to the change in demand and supply factors in the labour market. Movements of informal sector wages are analysed using the relevant wage information, collected under the Country Wide Data Collection System (CWDCS) operated by the CBSL covering agriculture and building construction activities.

**Daily wages of the informal private sector increased in nominal terms by 5.6 per cent on average during 2014.** Nominal wages of employees in the informal Agriculture and Construction sectors increased, respectively by 5.5 per cent and 5.7 per cent in 2014 compared to 12.0 per cent and 8.0 per cent increases in 2013. Within the Agriculture sector, the average daily wages in the sub-categories of Rubber, Coconut, Paddy and Tea increased by 5.2 per cent, 6.4 per cent, 4.3 per cent and 6.7 per cent, respectively, in 2014. The average daily wage earned by

Table 4.7

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

Sector	Annual Average (Rs.)			Percentage Change			
	2012	2013	2014 (b)	Nominal		Real (c)	
				2013	2014 (b)	2013	2014 (b)
<b>1. Agriculture Sector</b>							
<b>Tea</b>							
Male	691	764	819	10.6	7.2	3.4	3.8
Female	512	565	598	10.4	5.9	3.2	2.5
<b>Rubber</b>							
Male	741	853	881	15.2	3.2	7.7	-0.1
Female	585	652	702	11.4	7.7	4.2	4.3
<b>Coconut (d)</b>							
Male	887	997	1,061	12.3	6.5	5.0	3.1
<b>Paddy</b>							
Male	787	882	937	12.1	6.3	4.8	2.9
Female	599	667	678	11.4	1.6	4.2	-1.6
<b>2. Construction Sector (d)</b>							
<b>Carpentry</b>							
Master Carpenter - Male	1,248	1,334	1,406	6.9	5.4	0.0	2.1
Skilled and Unskilled Helper - Male	824	903	958	9.6	6.1	2.5	2.8
<b>Masonry</b>							
Master Mason - Male	1,216	1,304	1,376	7.2	5.5	0.3	2.2
Skilled and Unskilled Helper - Male	823	900	955	9.4	6.1	2.3	2.7

(a) Based on daily wage information collected through CWDCS data collecting centres (2012-2013:102 centres, 2014:106 centres).

(b) Provisional

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

(d) Female participation is minimal in these sectors.

Source: Central Bank of Sri Lanka

carpenters and masons in the Construction sector increased by 5.7 per cent and 5.8 per cent, respectively, in 2014 compared to increases of 8.0 per cent and 8.1 per cent, respectively, in 2013. The high demand for labour and the contraction of labour supply to some extent due to the migration of labour for foreign employment could have led to these wage movements in the Construction sector.

**Average daily wages of employees in the informal private sector increased by 2.2 per cent in real terms during the year.** Real average daily wages of Tea, Rubber, Coconut and Paddy sub-sectors increased by 3.3 per cent, 1.9 per cent, 3.0 per cent and 1.0 per cent respectively. Carpenters and masons in the Construction sector enjoyed a gain of 2.3 per cent and 2.4 per cent, respectively, in their real wages during the year. The Agriculture and Construction sectors recorded overall real wage increases of 2.1 per cent and 2.4 per cent, respectively, in 2014 compared to

4.8 per cent and 1.1 per cent increases in 2013. As a result, the overall daily real wages for employees in the informal private sector increased, on average, by 2.2 per cent in 2014 compared to the 3.1 per cent increase in the previous year.

## 4.4 Population, Labour Force and Employment

### Population

The mid-year population in 2014 is estimated at 20.675 million with an annual growth rate of 0.9 per cent. This consists of 10.642 million of females and 10.033 million of males. The population density<sup>2</sup>, continued to increase from 327 in 2013 to 330 in 2014 with the contribution of all districts except the Mullativu district. The Western province recorded the highest increase of population (41,000) in 2014 and remains as the highest

<sup>2</sup> Number of persons per square kilometer

**Table 4.8** District-wise Population and Density (a)(b)

District	2013		2014	
	Population '000 Persons	Density	Population '000 Persons	Density
Colombo	2,326	3,441	2,343	3,466
Gampaha	2,313	1,725	2,328	1,736
Kalutara	1,227	779	1,236	784
Kandy	1,384	722	1,397	729
Matale	489	251	494	253
Nuwara Eliya	719	421	728	427
Galle	1,068	660	1,077	666
Matara	819	645	826	650
Hambantota	606	243	616	247
Jaffna	589	634	593	638
Mannar	101	54	102	54
Vavuniya	174	93	176	95
Mullaitivu	93	39	93	39
Kilinochchi	116	96	118	98
Batticaloa	529	203	534	205
Ampara	658	156	666	158
Trincomalee	384	152	389	154
Kurunegala	1,624	351	1,636	354
Puttalam	769	267	778	270
Anuradhapura	868	130	879	132
Polonnaruwa	408	133	412	134
Badulla	822	291	831	294
Moneragala	456	83	463	84
Ratnapura	1,097	339	1,110	343
Kegalle	844	501	850	504
<b>All Island</b>	<b>20,483</b>	<b>327</b>	<b>20,675</b>	<b>330</b>

(a) Provisional Source: Registrar General's Department

(b) The mid-year population from 2012 onwards is based on the preliminary data of the Census of Population and Housing conducted in 2012 and data on natural increase in population and net migration during the period from 20th March - 30th June 2012

Note : This computation does not include changes in population at district level, on account of resettlements in Northern and Eastern provinces, effected since 20th March 2012

populated province recording more than one fourth of the total population. The Northern province which is the least populous province recorded the lowest increase of population in 2014 (9,000). Colombo and Gampaha districts exceeded 2 million each and together accounted for more than one fifth of the total population. The population of Kurunegala, Kandy, Kalutara, Ratnapura and Galle districts exceeded one million each. In contrast, Mullaitivu district recorded a population of 93,000 in 2014 and is

the only district with less than a one hundred thousand population. As per the Registrar General's Department, in-migration and out-migration in thousand persons pertaining to mid-year population in 2014 were 2,763 and 2,807 respectively, with a net migration rate of -2.2 per cent. Based on the age structure of the population, 57.2 per cent of the total population is in the age group between 15-54 years. The population aged 0-14 years and 55 years and above are 25.3 per cent and 17.5 per cent, respectively.

## Labour Force

**The labour force, defined as the economically active population aged 15 years and above, increased marginally during the year 2014 compared to 2013.** As per the Quarterly Labour Force Survey (QLFS) conducted by the DCS, the labour force increased marginally by 0.03 per cent from 8.802 million to 8.805 million. The number employed has increased while the number unemployed has decreased during the year, reflecting the increased capacity of the economy to absorb additional labour.

**Even though, the labour force increased, the Labour Force Participation Rate (LFPR)<sup>3</sup> declined marginally to 53.3 per cent during 2014 from 53.8 per cent recorded in 2013.** During 2014, the working age population also increased, at a higher rate than the labour force causing the LFPR to decline. This decline in LFPR is mainly caused by the significant decline in rural LFPR from 55.0 per cent to 54.1 per cent, particularly the participation by females with their LFPR exhibiting a significant decline throughout the year. The gender wise LFPR statistics reveal that, both male and female LFPRs recorded declines in this period. The male LFPR declined marginally from 74.9 per cent to 74.6 per cent, while female LFPR declined from 35.6 per cent to 34.8 per cent.

<sup>3</sup> The ratio of the labour force to the household population aged 15 years and above

**Table 4.9 Household Population, Labour Force and Labour Force Participation (a)**

Item	2013	2014 (b)				
		Q1	Q2	Q3	Q4	Annual
Household Population '000 Persons	16,360	16,420	16,454	16,646	16,608	16,532
Labour Force '000 Persons	8,802	8,770	8,812	8,854	8,783	8,805
Employed	8,418	8,407	8,413	8,480	8,396	8,424
Unemployed	384	362	399	374	387	381
Labour Force Participation Rate (c)	53.8	53.4	53.6	53.2	52.9	53.3
Male	74.9	74.4	75.2	74.6	74.3	74.6
Female	35.6	35.3	34.8	34.4	34.5	34.8

(a) Household population aged 15 years and above and data covers all districts

Source: Department of Census and Statistics

(b) Provisional

(c) Labour force as a percentage of household population

## Employment

The number of employed persons increased marginally by 0.1 per cent to 8.424 million in 2014 compared to 8.418 million during the previous year. This increase was mainly observed in increases in employment in Industry and Services

sectors, supported by the expansion in these two sectors. Nevertheless, the number employed in the Agriculture sector declined in 2014 due to the setback in the sector as a result of adverse weather conditions which prevailed during the most part of the year. Accordingly, the share of the number employed in the Agriculture sector declined to 28.5 per cent

**Table 4.10 Employment by Economic Activity (a)(b)**

Sector	'000 Persons						Percentage of Total Employment	
	2013	2014 (c)					2013	2014 (c)
		Q1	Q2	Q3	Q4	Annual		
<b>Agriculture</b>	<b>2,505</b>	<b>2,222</b>	<b>2,369</b>	<b>2,455</b>	<b>2,553</b>	<b>2,400</b>	<b>29.7</b>	<b>28.5</b>
<b>Industry</b>	<b>2,202</b>	<b>2,339</b>	<b>2,189</b>	<b>2,253</b>	<b>2,134</b>	<b>2,229</b>	<b>26.2</b>	<b>26.5</b>
Mining and Quarrying	100	85	76	92	63	79	1.2	1.0
Manufacturing	1,514	1,678	1,511	1,523	1,430	1,535	18.0	18.2
Construction, Electricity, Gas, Steam and Air Conditioning Supply, Water Supply, Sewerage, Waste Management and Remediation Activities	588	576	602	638	641	615	7.0	7.3
<b>Services</b>	<b>3,711</b>	<b>3,846</b>	<b>3,855</b>	<b>3,772</b>	<b>3,709</b>	<b>3,795</b>	<b>44.1</b>	<b>45.0</b>
Wholesale and Retail Trade, Repair of Motor Vehicles and Motor Cycles	1,151	1,093	1,136	1,131	1,082	1,111	13.7	13.2
Transport and Storage	517	554	480	570	508	528	6.1	6.3
Accommodation and Food Services Activities	188	218	169	219	192	200	2.2	2.4
Information and Communication	63	75	87	53	71	71	0.7	0.8
Financial and Insurance Activities	153	161	170	153	159	161	1.8	1.9
Professional, Scientific and Technical Activities	68	54	60	42	54	52	0.8	0.6
Administrative and Support Service Activities	107	99	116	107	127	112	1.3	1.3
Public Administration and Defence Compulsory Social Security	629	651	685	667	620	656	7.5	7.8
Education	330	372	339	292	361	341	3.9	4.0
Human Health and Social Work Activities	141	144	141	124	144	138	1.7	1.6
Other (d)	364	425	472	414	391	425	4.3	5.1
<b>Total employment</b>	<b>8,418</b>	<b>8,407</b>	<b>8,413</b>	<b>8,480</b>	<b>8,396</b>	<b>8,424</b>	<b>100.0</b>	<b>100.0</b>
Percentage of Labour Force	95.6	95.9	95.5	95.8	95.6	95.7		

(a) Based on the International Standard Industrial Classification (ISIC) - Revision 4

Source: Department of Census and Statistics

(b) Household population aged 15 years and above and data covers all districts

(c) Provisional

(d) Includes activities of Households as employers; Real estate; Arts, entertainment and recreation; and Extra territorial organisations and bodies

## BOX 5

## Importance of Improving Female Labour Force Participation in Sri Lanka

## Introduction

As the Sri Lankan economy is targeted to grow at a higher pace in the coming years, all resources available in the country should be fully utilised to support and sustain this growth momentum. One of the crucial areas that need attention in this regard is the low Labour Force Participation (LFP) amidst the declining unemployment rate in the country and the demographic transition that Sri Lanka is currently experiencing where the demographic bonus Sri Lanka enjoys at present will diminish by 2017, if the retirement age is considered as 60 years (De Silva, 2012). For the economy to grow at a reasonably high pace, a skilled and well competent labour force is required to keep up with increasing demands of the sectors identified with growth potential. Future growth momentum in Sri Lanka is expected to be mainly supported by the service based industries, where skilled laborers are considered as the main input.

A decreasing unemployment rate in an economy is considered as a positive development, as it is usually seen as a favourable signal that the majority of people who seek jobs have succeeded. However, it also signals a labor shortage, where the labour market is unable to cater to the growing labour needs of an expanding economy. In 2014, Sri Lanka's unemployment rate stood at 4.3 per cent. The shortage of labour is being highlighted as a major bottleneck in business expansion by many private sector firms as per the findings of the Business Outlook Survey<sup>1</sup> conducted by the Central Bank of Sri Lanka. Nevertheless, this labour shortage is not solely due to the shortage of people, but also due to low Labour Force Participation Rate (LFPR)<sup>2</sup>. Sri Lanka's LFPR languish around 53 per cent in the recent years. A LFPR as low as 53 per cent can be explained as almost half the working age population has no interest in engaging in employment. However, if this portion of the working age population can be attracted to the labour force that may ease the pressure in the labour market.

**Table B 5.1** Sri Lanka's labour force participation and unemployment rates (2009-2014)

Year	Labour Force Participation Rate			Unemployment Rate		
	Male	Female	Total	Male	Female	Total
2009	74.7	36.2	54.1	4.3	8.6	5.9
2010	75.0	34.4	53.4	3.5	7.7	4.9
2011	74.0	34.4	53.0	2.7	7.0	4.2
2012	75.0	32.9	52.6	2.8	6.2	4.0
2013	74.9	35.6	53.8	3.2	6.6	4.4
2014	74.6	34.8	53.3	3.2	6.5	4.3

Source: Department of Census and Statistics

1 The Business Outlook Survey is conducted every quarter, covering a sample of large business entities representing all sectors of the economy.

2 LFPR is defined as the ratio of the labour force to the household population aged 15 years and above.

Attracting more labour into the labour force is rather important at this juncture with the eminent demographic change that the country is about to experience in a few years time. With the country's transition from demographic bonus era to ageing population era, dependency ratios<sup>3</sup> are expected to increase in the future, with one out of every four people is expected to be above 60 years of age as per World Bank projections. Along with this development comes the issue of poverty, where the income generated by a smaller number of persons being insufficient to provide for a greater number of dependents. With the increase in the dependent population, keeping poverty and vulnerability levels in check will be increasingly challenging, as the country's existing social protection system is inadequate to meet the demands and needs of an aging population. A significant share of the elderly is in a vulnerable situation in Sri Lanka, because they neither receive public support nor pensions (World Bank, 2013). In order to maintain average living standards after the demographic bonus period, the existing workforce has to provide for the growing dependant population with extra effort, if current LFPR trends are to be continued. Hence, improving LFPR is critical at this time, to support economic growth and maintain welfare standards across the entire population.

## Low Female Labour Force Participation

Low overall LFPR is mainly due to the low female LFPR (Table B 5.1). Currently, Sri Lanka's male LFPR is around 75 per cent and female LFPR is around 35 per cent. Sri Lanka reports considerably low female LFPR statistics when assessed against countries in the region and other comparable countries (Table B 5.2). World Bank statistics show that Sri Lanka reports the 28<sup>th</sup> largest gender gap in labour force participation globally. A study on per capita income loss due to gender gaps considering 126 countries report that Sri Lanka's loss in per capita income due to gender gaps in employment, self employment, labour force participation and wages is 20 per cent (Teignier and Cuberes, 2014).

**Table B 5.2** Male and Female Labour force Participation Rates in Selected Countries (2008 and 2013)

Country	Labour Force Participation Rate (% of population ages 15+)			
	Male		Female	
	2008	2013	2008	2013
Sri Lanka	76.1	74.9	36.6	35.6
Bangladesh	84.5	84.1	56.3	57.4
India	81.8	79.9	31.8	27.0
Malaysia	75.7	75.5	44.3	44.4
Nepal	87.9	87.1	79.8	79.9
Singapore	77.3	77.2	56.4	58.8
Thailand	81.5	80.7	65.8	64.3
China	78.3	78.3	64.6	63.9
Japan	72.9	70.4	48.5	48.8
Kenya	71.0	72.4	60.9	62.2
Cambodia	86.1	86.5	79.1	78.8
Vietnam	81.3	82.2	72.2	73.0

Source: World Bank Database  
Department of Census and Statistics

3 Dependency ratio is defined as the number of dependents to the number of persons between 15 and 59 years.

Gender wise unemployment rates further reveal that female unemployment rate is double the male unemployment rate, over the years (Table B 5.1). This reflects that even the smaller portion of females who are willing to be employed, find it difficult to be employed in the labour market than males. As per the Labour Force Survey conducted by the Department of Census and Statistics, out of the approximate 25 per cent of economically inactive working age males, the reason for a majority to be economically inactive is engaging in studies. Out of the approximate 65 per cent of economically inactive females, the majority take up household responsibilities (Table B 5.3). The confounding fact in this regard is that both men and women in Sri Lanka have the same level of educational attainment. It is observed that the trend of females leaving labour force to take up household responsibilities has increased in the last few years with the social transition of families becoming nuclear rather than being extended. In an extended family, members tend to share their household responsibilities, particularly with higher support from elders. Nuclear families do not receive such support, but they are compelled to manage their household responsibilities by themselves.

**Table B 5.3** Reasons for being economically inactive by gender - (2011-2013)

Reason	Total			Male			Female		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Engaged in Housework	39.3	41.6	48.0	4.4	4.8	5.9	54.7	57.1	62.1
Engaged in Studies	35.9	35.3	20.5	57.7	59.2	37.8	26.4	25.2	14.7
Retired/ Old Age	16.4	15.5	20.7	23.5	23.0	34.8	13.2	12.4	15.9
Physical Illness/Disabled	5.1	4.5	6.1	9.1	8.2	12.9	3.4	3.0	3.8
Other	3.3	3.1	4.7	5.3	4.8	8.5	2.4	2.3	3.4
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Department of Census and Statistics

### Reasons for Low Female Labour Force Participation and High Female Unemployment

There are several key reasons why many females chose to leave the labour force or it is difficult for them to be employed. Being involved in household responsibilities, particularly child care, unavailability of safe accommodation and transportation facilities to and from work, difficulties in adhering to work time slots and inability to find employment after a break, can be identified as major reasons for low female labour force participation in Sri Lanka. Also, there is a social norm in the country that women are to take up household responsibilities, while men are engaged in earning. This traditional perception hinders the opportunities for women to attain economic freedom. It has been identified that female LFP shows a 'U' shaped pattern in terms of educational attainment as well as income levels<sup>4</sup> (World Bank, 2013). This means, females with middle level educational attainment or those living in middle

<sup>4</sup> Measured by per capita household consumption expenditure

level income households tend to opt out of the labour force and take up household responsibilities. Economic literature on labour supply by households with pre-school children in Sri Lanka explained that many women chose to leave their occupations due to unavailability of quality affordable child care services. This is more prominent among educated mothers (Premaratne, 2011). In a country where education is a public good, this is a matter to be looked into as it indicates that public funds spent on girls' education does not generate the expected outcome. When the labour mobility is considered, women find it difficult than men to move to geographical areas that provide more employment opportunities. With the higher level of educational attainment, women aspire employment in Industry and Services sectors. Such employment opportunities are offered mainly in centres of urban areas, where rural women cannot gain access to. It is also observed that some level of gender discrimination towards offering employment and earnings from employers' side is also present (World Bank, 2013) which hinders the attraction of women to the labour force.

### Way Forward

It is evident that a policy dialogue and policy actions need to be initiated and taken without further delay to attract more female labour to the labour force. Relaxing labour laws to facilitate part time jobs, introducing flexible working hours, popularising work from home option and self employment, regularising child care facilities and re-skilling and re-training of women who are willing to join the workforce after a break are some possibilities to encourage more females entering the labour force. Encouraging firms to regionalise their activities, rather than being segregated in main cities, will also loosen the impediments for women to be employed through the provision of employment opportunities in their residential areas. Attracting more female labour is important, not only to sustain economic growth but also to ensure the inclusiveness in economic growth while empowering women, to overcome the challenge of ageing population, realising gains from national investment in girls' education as well as to accommodate the labour demand by emerging industries.

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in 2014 from 29.7 per cent recorded in 2013. The share of employment in the Industry sector increased marginally to 26.5 per cent in 2014 compared to 26.2 per cent recorded in 2013. Growth in manufacturing and construction sub-sectors bolstered employment generation in the Industry sector. The Services sector continued to be the foremost employment generating sector in the economy, contributing to a share of 45.0 per cent in total employment compared to 44.1 per cent recorded in 2013.

**Employment opportunities in both the public sector and the private sector increased in 2014 compared to the previous year.** Consequently, both the share and the number employed in these employment categories increased. This increase was caused by the availability of job opportunities in Industry and Services sectors, while that in the Agriculture declined in public and private sectors. However, Employers, Self-employed and Unpaid family workers categories recorded declines in both the number of employed persons and the shares in total employment. These declines were mainly observed in occupations in the Industry and Services sectors.

**As per the Public Sector Employment Survey (PSES) conducted by the CBSL, public sector employment grew by 3.2 per cent to 1,330,456 in 2014 from 1,289,151 in 2013.** This increase was mainly attributed to the

**Table 4.11** Status of Employment (a)

Period	Per cent					
	Public Sector Employees	Private Sector Employees	Employers	Self Employed	Unpaid Family Workers	Total
2013	15.1	40.6	3.0	32.2	9.1	100.0
<b>2014 (b)</b>	<b>15.3</b>	<b>41.1</b>	<b>2.8</b>	<b>31.9</b>	<b>8.9</b>	<b>100.0</b>
1st Quarter	15.7	40.9	3.1	31.6	8.7	100.0
2nd Quarter	15.7	41.0	2.6	31.8	8.9	100.0
3rd Quarter	14.7	40.5	3.1	32.3	9.4	100.0
4th Quarter	15.3	41.9	2.3	31.8	8.6	100.0

(a) Household population aged 15 years and above and data covers all districts  
(b) Provisional

Source: Department of Census and Statistics

**Table 4.12** Public Sector Employment

Sector	2012	2013 (a)	2014 (b)	Percentage Change	
				2013/2012 (a)	2014/2013 (b)
Government (c)	993,912	1,033,850	1,068,773	4.0	3.4
Semi Government (d)	254,728	255,301	261,683	0.2	2.5
<b>Public Sector</b>	<b>1,248,640</b>	<b>1,289,151</b>	<b>1,330,456</b>	<b>3.2</b>	<b>3.2</b>

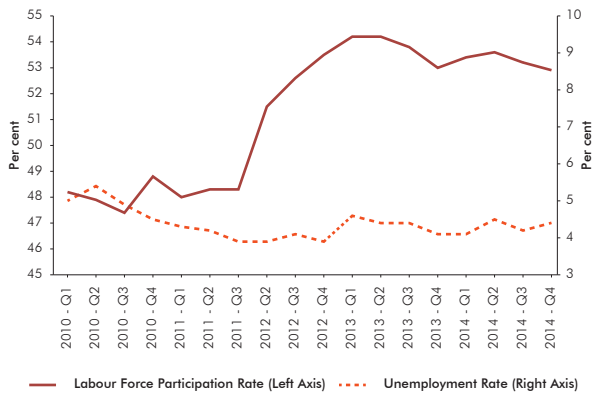
(a) Revised  
(b) Provisional  
(c) Central Government, Local Government and Provincial Councils  
(d) State Corporations, Statutory Boards and State Authorities

Source: Central Bank of Sri Lanka

increase in net recruitment to the Government sector. Accordingly, out of the total increase in public sector employment, more than 84 per cent was recorded in the Government sector, which was particularly led by net recruitments of Development Officers and teachers to the provincial councils. Provincial councils contributed to around 39 per cent of the above increase. There was a notable increase in the number of employees in the permanent cadre in Tertiary and Primary levels. Meanwhile, employment in the three armed forces, Departments of Police and Civil Security has increased by more than 6,000. Employment in the Semi-government sector, which accounts for 19.7 per cent of the total public sector employment increased marginally by 2.5 per cent in 2014. In the Semi-government sector, the number of employees in Secondary level recorded the highest increase.

## Unemployment

The QLFS revealed that the unemployment rate declined from 4.4 per cent recorded in 2013 to 4.3 per cent in 2014. This decline in the unemployment rate was due to an increase in employment generation as the number employed has increased, while the number unemployed has decreased, bolstered by the growth in many sectors in the economy. The number employed has increased

**Chart 4.2** Trends in Labour Force and Unemployment (2010-2014)

Note : Quarterly Labour Force Survey for the 4th Quarter of 2011 and 1st Quarter of 2012 was not conducted by the DCS. Data upto 2011 represents household population aged 10 years and above while that of 2012 onwards indicates those aged 15 years and above.

by 0.1 per cent while the number unemployed declined by 1.0 per cent during the period. The female unemployment rate decreased to 6.5 per cent in 2014 over 6.6 per cent in 2013, while the male unemployment rate remained unchanged at 3.2 per cent.

**Age-wise, unemployment rates of categories below 30 years of age increased during 2014 compared to 2013.** The age groups of 15-19 and 20-24 recorded unemployment rates as high as 21.5 per cent and 20.0 per cent, respectively, during the period indicating the acutely high level of unemployment among youth in the country. This

issue needs immediate and in-depth attention, as underutilisation of productive work hours of young people in the country will lead to social unrest among youth, serious productivity losses and long term skill deficiencies in the country, leading to a workforce that cannot cater to the needs of a changing economy in line with global trends. However, the age group of 40 years and above recorded a decrease in the unemployment rate, while that in the age group of 30-39 years remained unchanged during the period.

**Unemployment rates by level of education remained unchanged in all categories, except for those who have GCE (A/L) and above qualifications.** Unemployment rate among the GCE (A/L) and above qualified category improved to 8.1 per cent in 2014 from 8.6 per cent recorded in the previous year. Unemployment rate among the GCE (O/L) qualified category was 5.9 per cent during the period while those have passed years 6-10 recorded the lowest unemployment rate of 3.4 per cent. These unemployment rates reveal that people with a higher level of educational qualifications find it more difficult to be employed than those with lower educational qualifications. This further indicates that the public funds spent on education for those with higher educational qualifications have not generated the intended outcome. Skills and perception mismatch has

**Table 4.13** Unemployment Rate (Unemployed as a percentage of Labour Force) (a)

Category	2013	2014 (b)				
		Q1	Q2	Q3	Q4	Annual
All	4.4	4.1	4.5	4.2	4.4	4.3
<b>By Gender</b>						
Male	3.2	3.0	3.4	3.3	2.9	3.2
Female	6.6	6.1	6.7	6.0	7.2	6.5
<b>By Educational Level</b>						
Grade 4/Year 5 and below	...	...	...	...	...	...
Grade 5-9/Year 6-10	3.4	3.1	3.6	3.8	3.0	3.4
GCE (O/L)	5.9	6.6	5.8	5.1	6.2	5.9
GCE (A/L) and above	8.6	6.9	8.7	7.9	8.8	8.1
<b>By Age Group</b>						
15-19	18.7	21.1	21.8	20.2	22.8	21.5
20-24	19.2	19.1	18.8	20.8	21.2	20.0
25-29	7.5	8.6	9.4	8.1	6.9	8.3
30-39	2.7	2.4	3.1	2.3	2.9	2.7
40 and above	1.0	0.9	0.9	1.0	0.9	0.9

(a) Household population aged 15 years and above and data covers all districts  
(b) Provisional

Source: Department of Census and Statistics



been identified as the main reason for this issue by many employers. The education system of the country should be re-structured so that it does not simply generate an output, but it generates quality outcomes by producing an employable workforce with competence, self confidence and attitudes to contribute productively to the economy.

## Foreign Employment

In 2014, the total number of departures for foreign employment continued its increasing trend, which was observed over the period. Accordingly, total departures for foreign employment increased to 300,413 in 2014 from 293,218 in 2013 by 2.5 per cent. This was solely due to the increase in male migrants. Male departures increased by 14,739 in 2014, surpassing the total decline of 7,544 recorded in female departures. Consequently, male share of the total departures for foreign employment increased to 63.2 per cent in 2014 compared to 59.7 per cent in the previous year, reflecting the effectiveness of several policy measures taken towards increasing departures of skilled male workers through facilitating the development of technical skills. This trend was clearly observable in all age groups of male migrants. Meanwhile,

each age group of female departures other than the groups of 45-49 years; and 50 years and above show a decline in numbers.

In terms of migrant employment by skills, increases were observed in the job categories of professional, middle level, clerical related jobs, semi-skilled labour and unskilled labour in 2014. Meanwhile, the category of housemaids recorded the highest decline of 8,239 departures in 2014 by 8.5 per cent followed by the skilled labour category. Out of the total migrants in 2014, more than 80 per cent of workers were skilled labourers, unskilled labourers and housemaids. This highlights the importance of the continuity of implementing measures taken to improve skilled labour migration under professional and skilled categories while discouraging departures under housemaid and unskilled categories.

Total departures to Middle Eastern countries increased marginally by 1.7 per cent to 279,952 in 2014. Male migrants to Middle Eastern countries particularly for clerical, middle level and unskilled categories showed a commendable increase with an increased male share of 62.3 per cent. This was attributed to the increased demand for male workers from Qatar. In contrast, continuing the recent decreasing trend, housemaid departures to Middle Eastern countries decreased further by 8,148 in 2014, due to the mandatory requirement imposed to submit a Family Background Report. This was initiated with

Table 4.14

Departures for Foreign Employment

Employment	2012		2013 (a)		2014 (b)	
	Number	Per cent	Number	Per cent	Number	Per cent
<b>Total Placements</b>	<b>282,447</b>	<b>100.0</b>	<b>293,218</b>	<b>100.0</b>	<b>300,413</b>	<b>100.0</b>
<b>By Source</b>						
Licensed Agents	175,169	62.0	180,463	61.6	177,012	58.9
Other	107,278	38.0	112,755	38.4	123,401	41.1
<b>By Gender</b>						
Male	144,135	51.0	175,185	59.7	189,924	63.2
Female	138,312	49.0	118,033	40.3	110,489	36.8
<b>By Manpower Category</b>						
Professional	4,448	1.6	5,151	1.8	5,340	1.8
Middle Level	9,280	3.3	16,510	5.6	20,749	6.9
Clerical & Related	16,184	5.7	26,561	9.1	29,237	9.7
Skilled Labour	67,150	23.8	73,707	25.1	73,039	24.3
Semi-skilled Labour	3,467	1.2	3,412	1.2	3,972	1.3
Unskilled Labour	62,907	22.3	70,977	24.2	79,415	26.4
Housemaid	119,011	42.1	96,900	33.0	88,661	29.5

(a) Revised

(b) Provisional

Source: Sri Lanka Bureau of Foreign Employment

Table 4.15

## Foreign Employment Departures by Destination

Country	2013 (a)		2014 (b)		Change (b)	
	Number	Share	Number	Share	Number	Per cent
Saudi Arabia	80,887	27.6	80,539	26.8	-348	-0.4
Qatar	80,724	27.5	84,571	28.2	3,847	4.8
Kuwait	27,027	9.2	25,896	8.6	-1,131	-4.2
U A E	48,502	16.6	50,192	16.7	1,690	3.5
Other	56,078	19.1	59,215	19.7	3,137	5.6
<b>Total</b>	<b>293,218</b>	<b>100.0</b>	<b>300,413</b>	<b>100.0</b>	<b>7,195</b>	<b>2.5</b>

(a) Revised  
(b) Provisional

Source: Sri Lanka Bureau of Foreign Employment

the objective of minimising the psycho-social cost of children of female migrants being left behind without proper care. This decrease was clearly observable in departures to countries like Saudi Arabia, Kuwait and Qatar. In contrast, an increase was observed in departures of female workers for unskilled jobs to Saudi Arabia. As a result of above developments, total departures excluding housemaids recorded a considerable increase of approximately 8 per cent.

**The Sri Lanka Bureau of Foreign Employment (SLBFE) issued licenses for 101 new foreign employment agencies and renewed 998 licenses of existing agencies in 2014.** Nevertheless, the SLBFE statistics showed that a decline in the share of departures for foreign employment through licensed agents to 58.9 per cent in 2014 from 61.6 per cent in the previous year. Accordingly, the share of departures arranged through other sources has increased in 2014.

**The SLBFE has initiated several programmes to regulate and ensure the dignity, security and equity of Sri Lankan migrant workers.** Accordingly, to encourage foreign employment agencies, the quota system was cancelled, while a grading system for employment agencies was implemented in 2014 under the theme of developing good governance and regulating the migration process. The Web-based Recruitment System which was initiated with the objective of improving the efficiency of the recruitment process was further strengthened by extending its coverage to more countries. The number of SLBFE staff serving in Middle Eastern countries was increased with the objectives of

protecting the welfare of migrant employees and the promotion of foreign employment in this region. An impressive increase was seen in the number of loans granted through the Rataviru Piyasa Housing Loan Programme in 2014.

## Labour Relations and Labour Market Reforms

**The total number of strikes, the number of employees involved in strikes and the total man days lost in the private sector due to those strikes decreased considerably in 2014 compared to 2013.** Although the number of strikes in the plantation sector increased during the year, the number of strikes recorded in the other sectors declined in 2014. As a result, the total number of strikes in private sector industries decreased to 38 in 2014 from 42 in 2013. Further, most of these strikes were token strikes caused by short term disagreements with the respective management. Therefore, the adverse impact resulted was minimal. Meanwhile, workers involved in the strikes in the private sector decreased significantly by 42.0 per cent in 2014 compared to 2013. This led to a reduction of the number of man days lost in private sector industries by 53.6 per cent in 2014 as against 2013. However, the man days lost in the plantation sector was higher than that of the other sectors in the private sector industries.

**In order to enhance industrial harmony, a number of programmes were implemented by the Labour Department in 2014.** Accordingly, the department was continuously

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
2011	19	7,232	23,513	8	3,807	15,673	27	11,039	39,186
2012	14	4,278	25,043	20	5,626	10,774	34	9,904	35,817
<b>2013</b>	<b>21</b>	<b>5,031</b>	<b>41,669</b>	<b>21</b>	<b>6,088</b>	<b>38,754</b>	<b>42</b>	<b>11,119</b>	<b>80,423</b>
1st Quarter	4	416	1,046	7	2,505	21,381	11	2,921	22,427
2nd Quarter	7	2,436	29,112	5	1,893	7,537	12	4,329	36,649
3rd Quarter	5	1,490	9,134	2	498	3,208	7	1,988	12,342
4th Quarter	5	689	2,377	7	1,192	6,628	12	1,881	9,005
<b>2014 (b)</b>	<b>31</b>	<b>4,833</b>	<b>29,165</b>	<b>7</b>	<b>1,618</b>	<b>8,158</b>	<b>38</b>	<b>6,451</b>	<b>37,323</b>
1st Quarter	12	1,582	3,831	-	-	-	12	1,582	3,831
2nd Quarter	9	1,121	5,275	4	1,360	6,712	13	2,481	11,987
3rd Quarter	5	830	8,820	2	128	1,186	7	958	10,006
4th Quarter	5	1,300	11,239	1	130	260	6	1,430	11,499

(a) Includes Semi-government institutions and other private institutions.

Source: Department of Labour

(b) Provisional

involved in activities to improve workplace co-operation and industrial peace through the District Offices. In addition to their routine visits, priority was given to the institutions which recorded more disputes. Awareness programmes were also conducted separately for employees and for both employees and the management.

## Labour Productivity

Labour productivity<sup>4</sup>, as measured by GDP (in 2002 prices) per hour worked, increased by 6.1 per cent to Rs. 192.55 per hour in 2014 compared to Rs. 181.51 per hour in 2013. This increase was achieved across all three sectors in the economy. The highest labour productivity growth of 8.7 per cent was observed in the Industry sector. The Agriculture sector recorded a 4.3 per cent growth in productivity, while the Services sector recorded a relatively low productivity growth of 3.4 per cent during the year.

Even though the Agriculture sector recorded a moderate labour productivity growth, the level of labour productivity in the sector is the lowest, when compared with the Industry and Services sectors. Output per hour worked in the Agriculture sector is less

than half the value recorded by the other two sectors, signaling that this sector needs further attention in terms of improving productivity. This is further important, as approximately 28 per cent of workers in the country are employed in the sector, contributing only to 10 per cent of the total output of the country, thereby leading to imbalances in terms of income distribution and inclusiveness of growth. It is also evident that workers in the Agriculture sector are left with more idle work hours than those in the other two sectors. This trend can be prominently observed during periods of crop damage due to adverse weather conditions. Initiatives should be taken to utilise such idle work hours to uplift the livelihoods of people who are engaged in the Agriculture sector in order to improve the national output.

Table 4.17

## Labour Productivity by Major Economic Sectors

	2013	2014 (a)
<b>GDP at Constant (2002) Prices, Rs.mn</b>	<b>3,266,041</b>	<b>3,506,664</b>
Agriculture	352,583	353,709
Industry	1,016,886	1,132,892
Services	1,896,572	2,019,973
<b>Labour Productivity, Rs. per hour worked (b)</b>	<b>181.51</b>	<b>192.55</b>
Agriculture	79.97	83.33
Industry	214.70	233.28
Services	214.42	221.71

(a) Provisional

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

(b) Data covers all districts

<sup>4</sup> Labour productivity was calculated using the total employment as the input measure and GDP as the output measure until 2013. In line with international guidelines the total number of hours worked is used as the measure of labour input since 2014.

Promoting disease and weather resistant crop varieties and improved planting methods would further enhance productivity in the Agriculture sector. Workers in the Agriculture sector should be trained in skills that enable them to engage in employment in other sectors during idle periods.

**The Industry sector recorded the highest level of labour productivity among all three sectors during the year.** The Services sector also recorded a modest level, irrespective of the slower growth in labour productivity. As the Industry and Services sectors currently attract the majority of new workers in the economy, growth in productivity in these sectors can deteriorate temporarily. Increased mechanisation and a higher level of technology adoption, along with better practices in terms of labour utilisation could help overcome such issues.

Such initiatives should be taken with a long term vision, following international best practices.

**To support productivity enhancement in the private sector, productivity in the public sector should also be improved, facilitating smooth transition of tasks between administrative processes.** Bottlenecks in administrative processes discourage performance in the private sector. A well functioning public service will lead the competitiveness of the entire economy, setting best practice examples, while facilitating productivity growth in all sectors. Hence, streamlining the procedures and deregulating the administrative processes; and improving the efficiency of the service delivery of the public sector is paramount in improving the overall productivity of the economy.