

# 4

## PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY

### 4.1 Overview

**T**he general price level, as measured in terms of both the National Consumer Price Index (NCPI, 2013=100) and Colombo Consumer Price Index (CCPI, 2013=100), compiled by the Department of Census and Statistics (DCS), followed an overall increasing trend, with mixed movements during 2016. The movement of the general price level was largely in line with the price movements of the Food category. Price developments in the Non-food category, mainly led by government tax adjustments introduced on several occasions during the year, also triggered movements in the general price level. Furthermore, prices of imported consumer goods exerted some degree of upward pressure on domestic prices, due to both the increase in prices in international markets compared to the subdued price environment that prevailed in 2015 and the weakening of the domestic currency. Meanwhile, the underlying price movements, as measured by both the NCPI Core and CCPI Core, also followed an increasing trend during the period, signaling the demand pressure in the economy while the changes made to the tax structure also contributed to this increase. Overall,

the increasing trend of the general price level and the underlying price movement during the period was also noticeable in the Producer's Price Index (PPI). Meanwhile, wages increased in nominal terms across all sectors of the economy although a real wage erosion was observed in the Public and Formal Private Sectors. On the employment front, the overall unemployment rate declined compared to the previous year, supported by an increase in job opportunities in the economy. Unemployment among youth, females and persons with higher educational attainment continued to remain at higher levels. Foreign employment opportunities, as reflected by the number of departures for foreign employment declined in 2016.

### 4.2 Prices

#### Price Movements and Contributory Factors

#### National Consumer Price Index (NCPI)

**The general price level, as measured by the movement in the NCPI (2013=100), which covers the entire island, followed an overall increasing trend, with mixed movements during 2016. The**

Table 4.1  
Changes in Price Indices

Index	Index (year end)		Year-on-Year Percentage Change		Annual Average Percentage Change	
	2015	2016 (a)	Dec 2015/ Dec 2014	Dec 2016/ Dec 2015 (a)	2015/2014	2016/2015 (a)
NCPI (2013=100)	113.2	118.0	4.2	4.2	3.8	4.0
CCPI (2013=100)	109.8	114.7	4.6	4.5	2.2	4.0
CCPI (2006/07=100)	185.2	192.8	2.8	4.1	0.9	3.7
PPI (2013 Q4=100)	107.2 (b)	115.5	5.0 (b)	7.7	3.6 (b)	1.7
GDP Deflator (2010=100)	126.8 (b)	131.4	-	-	0.8 (b)	3.6

(a) Provisional  
(b) Revised

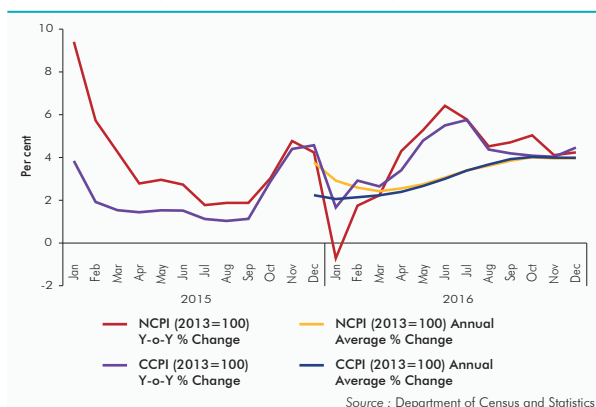
Source: Department of Census and Statistics

NCPI was 112.0 index points in January 2016 and increased to 118.0 index points in December 2016. The NCPI, which declined from January 2016 to March 2016, increased from April 2016 to June 2016. However, it declined in July 2016 and August 2016, after which it reversed its trend and moved on a gradual increasing path. The NCPI largely followed the movements of the prices of Food category. It also reflected mixed trends largely in accordance with the introduction, suspension and re-introduction of government tax adjustments during the year that mainly affected the movement of the Non-food category.

**Inflation as measured by the year-on-year change in the NCPI, followed an overall increasing trend with mixed movements during 2016.** Year-on-year NCPI inflation increased at a comparatively rapid pace in the first half of the year

and decelerated during the second half of 2016, leading to an overall increasing trend. Year-on-year NCPI inflation was -0.7 in January 2016, due to broadly favourable domestic supply conditions as well as the relatively high base in January 2015. The year-on-year NCPI inflation moved on an increasing trend and peaked in June 2016, reaching 6.4 per cent. The year-on-year NCPI inflation increased in May and June 2016 due to the impact of the increase in food prices led by adverse weather conditions and the increase in non-food prices resulting from the changes in government taxes. In July and August 2016, year-on-year NCPI inflation moved on an overall decelerated trend, supported by some improvements in the supply conditions of food items. The suspension of government tax changes in July also contributed marginally towards this decline. In November, government tax changes were re-introduced, and food prices were also on the rise due partly to the drought conditions. Year-on-year NCPI inflation settled around mid-single digit levels towards the latter part of 2016. Meanwhile, annual average NCPI inflation increased from 2.9 per cent in January 2016 to 4.0 percent in December 2016.

Chart 4.1  
Movements of Inflation  
(NCPI (2013=100) and CCPI (2013=100))



### Colombo Consumer Price Index (CCPI)

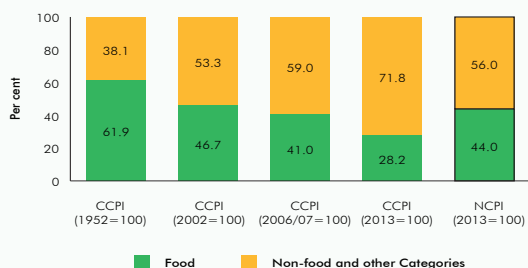
The CCPI (2013=100), which measures the price developments of urban areas of the Colombo district, also moved on an increasing trend with mixed movements during 2016. The

**BOX 05**

**Evolution of Consumer Price Indices in Sri Lanka**

Consumer Price Indices (CPIs) measure the overall price level of a basket of goods and services used by an average household. As consumption patterns change over time, CPIs should also accommodate such changes via a rebasing exercise. It is a widely accepted practice amongst international statistical agencies to rebase CPIs based on findings of surveys on consumption and expenditure patterns of consumers.

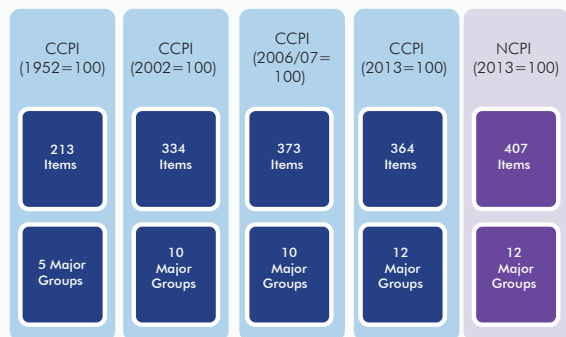
**Chart B 5.1**  
**Weight Structure of CPI baskets**



Source: Department of Census and Statistics

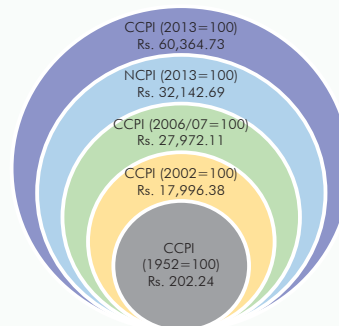
The history of CPIs in Sri Lanka dates back to 1939, when a Cost of Living Index representing the working class in Colombo was used to analyse trends in prices. The base period of this Colombo Working Class Cost of Living Index was November 1938-April 1939. Thereafter, in 1953, the first Colombo Consumer Price Index (CCPI) was released as the official CPI in Sri Lanka by the Department of Census and Statistics (DCS), the authority entrusted with the responsibility of compiling official CPIs. The base year of the first CCPI was 1952, where the basket of goods was selected based on patterns of consumption and expenditure revealed by findings of the Colombo Family Budget Survey conducted in 1949/50. Subsequently, the CCPI was rebased to 2002 and then to 2006/07, based on the findings of the Household Income and Expenditure Surveys (HIESs) conducted during the respective periods. The most recent rebasing has been carried out based on the findings of the HIES conducted during 2012/13.

**Chart B 5.2**  
**Categorisations of Items in the CPIs**



Source: Department of Census and Statistics

**Chart B 5.3**  
**Total Expenditure during the Base Years**



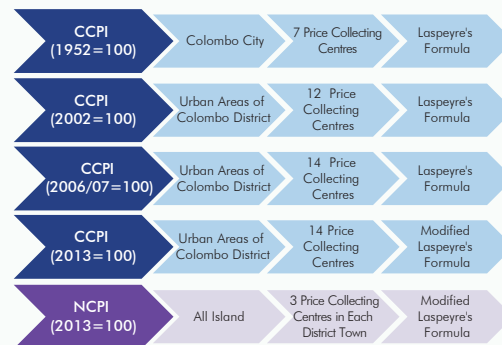
Source: Department of Census and Statistics

DCS updated the base period of the CCPI to year 2013 from 2006/07. The new series of the CCPI was released in January 2017.

There are a number of key improvements and changes that have been introduced with each rebasing. The prominent change in indices over time is the transformation of the shares of food and non-food expenditure in the basket. The share of expenditure on food in CCPI (2013=100) is 28.2 per cent. This is a significant decline from 41.0 per cent in CCPI (2006/07=100) and 61.9 per cent in CCPI (1952=100). This clearly indicates that households in Colombo tend to spend a relatively higher share of their expenditure on non-food items at present, and this share has increased significantly over time. Nevertheless, as per the National Consumer Price Index (NCPI), an average household representing the entire country spends 44.0 per cent of the total expenditure, on food.

NCPI (2013=100), which was released by the DCS in 2015, reflects the changes in the patterns of consumption and expenditure of consumers at the national level whereas CCPI reflects the changes in the patterns of consumption and expenditure of consumers in Colombo district. The recent rebasing of CCPI to 2013 aligns the base years of NCPI and CCPI and enables convenient comparisons of national and urban price trends.

**Chart B 5.4**  
**Compilation of the CPIs**



Source: Department of Census and Statistics



**Table 4.2**  
**Contribution to Annual Average Inflation by**  
**Sub-category - 2016**

Index	CCPI (2013=100)		NCPI (2013=100)	
	Percentage		Percentage	
	Change	Contribution	Change	Contribution
All Items	4.0	100.0	4.0	100.0
Food And Non Alcoholic Beverages	6.1	44.0	3.1	34.7
Non Food, Alcoholic Beverages and Tobacco	3.1	56.0	4.6	65.3
Alcoholic Beverages and Tobacco	20.8	6.4	22.1	15.0
Clothing and Footwear	6.5	3.9	3.7	3.2
Housing, Water, Electricity, Gas and Other Fuels	-0.2	-1.5	0.1	0.6
Furnishings, Household Equipment and Routine Household Maintenance	0.3	0.2	4.1	3.4
Health	12.9	14.7	11.5	12.4
Transport	2.0	4.5	5.1	10.7
Communication	6.3	5.0	6.8	3.8
Recreation and Culture	2.0	0.6	2.7	1.1
Education	5.0	7.4	2.4	1.8
Restaurants and Hotels	2.6	3.2	1.9	1.8
Miscellaneous Goods and Services	14.5	11.6	10.6	11.5

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

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CCPI was 110.0 index points in January 2016 and increased to 114.7 index points in December 2016. Year-on-year CCPI inflation also followed a trend similar to NCPI inflation. As such, year-on-year CCPI inflation was 1.7 per cent in January 2016, peaked to 5.8 per cent in July 2016 and reached 4.5 per cent in December 2016. Meanwhile, annual average CCPI inflation increased from 2.1 per cent in January 2016 to 4.0 per cent in December 2016.

### Price Movements in the Food Category

**Price movements of the Food category were largely in accordance with the developments in the prices of Volatile Food<sup>1</sup>.** Volatile Food prices exhibited mixed movements, contributing largely towards the increase in food inflation during the period. Price pressures from rice and vegetables remained benign during the early months of the year due to favourable supply conditions. However, inflationary pressure due to the increase in rice prices was prominent during the latter part of the year, due to the impact of the drought that prevailed during the fourth quarter of the year. Meanwhile,

<sup>1</sup> Volatile Food includes rice, meat, fresh fish and sea food, coconuts, fresh fruits, vegetables, potatoes, onions and selected condiments.

prices of vegetables increased steadily during April to July 2016, mainly due to supply disruptions caused by floods. However, the drought that prevailed during the latter part of the year had a marginal upward pressure on vegetable prices. Prices of fresh fish exhibited mixed movement during the year with marine fishing maintained and increased fresh water fishing during the year. Prices of coconuts moved on a declining trend until August 2016 and increased at a rapid pace thereafter. Meanwhile, with a view of containing the rising cost of living, the government announced Maximum Retail Prices (MRPs) for 16 essential food items in mid July 2016, though the impact of these on prices was marginal.

**Domestic prices of imported items increased in 2016 compared to that of 2015.** This increase was led by both the increase in the prices of consumer goods in the international markets and the weakening of the domestic currency against a few major currencies, as reflected by trade indices compiled by the Central Bank. Prices of sugar, dhal and wheat flour increased in the domestic market in 2016 compared to the previous year. The price of a loaf of bread also increased, subsequent to the price increase in wheat flour. These price movements exerted some upward pressure on the general price level. Moreover, the Special Commodity Levy (SCL) on several imported food commodities were also revised on several occasions to balance the supply side developments. The SCL on imported commodities such as potatoes, red onions and big onions was increased to discourage imports during the harvesting seasons, for the benefit of local farmers. Furthermore, the SCL on imported sugar was reduced substantially to 25 cents per kilogram when the price ceiling was announced, to maintain prices in the retail market. However, the SCL on sugar was increased on several occasions during the second half of the year, to encourage the local production of sugar.

Table 4.3  
Retail Prices of Key Imported and Domestically Produced Items

Item	Unit	CCPI (2013=100) Weight %	Price - Rs.						Percentage Change				
			Annual Average			Dec	Dec	Dec	Annual Average		Year-on-Year		
			2014	2015	2016	2014	2015	2016	2015/ 2014	2016/ 2015	Dec 2015/ Dec 2014	Dec 2016/ Dec 2015	
Domestic	Rice - Samba	1 kg	1.47	84.14	91.20	92.75	92.77	95.43	95.90	8.4	1.7	2.9	0.5
	Rice - Kekulu (Red)	1 kg	0.65	75.28	76.57	69.52	91.90	71.46	84.08	1.7	-9.2	-22.2	17.6
	Rice - Kekulu (White)	1 kg	0.46	71.75	69.30	72.12	78.19	67.46	88.56	-3.4	4.1	-13.7	31.3
	Rice - Nadu	1 kg	0.36	78.37	77.95	78.71	87.56	79.14	91.41	-0.5	1.0	-9.6	15.5
	Coconut (medium)	nut	1.82	45.63	50.49	46.12	47.04	47.37	49.57	10.7	-8.6	0.7	4.6
	Fish - Tuna	1 kg	0.76	741.22	799.29	860.68	744.35	813.74	876.66	7.8	7.7	9.3	7.7
	Beans	1 kg	0.30	163.87	209.53	204.75	207.49	292.89	233.86	27.9	-2.3	41.2	-20.2
	Brinjals	1 kg	0.15	110.34	123.87	133.08	137.20	170.30	110.60	12.3	7.4	24.1	-35.1
	Eggs	each	0.30	12.75	14.80	16.10	12.78	15.60	15.63	16.1	8.7	22.0	0.2
Imports	Sugar	1 kg	0.63	101.71	87.80	100.69	100.37	90.85	97.68	-13.7	14.7	-9.5	7.5
	Milk Powder - Anchor	400g	2.16	379.13	330.08	325.00	386.00	325.00	325.00	-12.9	-1.5	-15.8	0.0
	Red Dhal	1 kg	0.68	162.80	184.07	191.16	170.34	178.09	196.08	13.1	3.9	4.5	10.1
	Wheat Flour	1 kg	0.18	97.80	87.43	89.66	97.84	86.43	89.10	-10.6	2.5	-11.7	3.1

Source: Department of Census and Statistics

## Price Movements in Non-food and other Categories

**Price behaviour in Non-food and other categories exhibited an overall upward trend with mixed movements.** These price behaviours can be largely attributable to the periodic price revisions as well as changes in prices due to administrative interventions. Prices in Health and Communication sub-categories increased due to the changes in government taxes implemented in 2016. Meanwhile, in October 2016, the National Medicines Regulatory Authority imposed MRPs on 48 selected medicinal products. Within the Housing, Water, Electricity, Gas and other Fuels sub-category, price of Liquid Petroleum Gas (L.P. Gas) was reduced by Rs.25, with effect from 29 November 2016, as announced in the Budget 2017. Within the Transport sub category, bus fares were revised upward by 6 per cent with effect from 1 August 2016.

**Government tax revisions introduced during several occasions in 2016 exerted a direct impact on Non-food prices.** In May 2016, the Value Added Tax (VAT) rate was increased from

11 per cent to 15 per cent and the VAT exemptions on several items in sub-categories in the consumer price index baskets (Communication and some items in Health) were removed. Accordingly, price increases were observed in the relevant sub-groups of Health and Communication sub-categories. However, the VAT increase was suspended in July 2016. Nevertheless, a full downward adjustment in prices was not observed in response to the suspension of the VAT increase, particularly in the prices of the Health sub-category. Thereafter, the VAT increase was re-imposed in November 2016, leading to an increase in prices of mainly the Non-food items.

## Core Inflation

**Year-on-year core inflation in terms of both the NCPI Core (2013=100) and CCPI Core (2013=100) moved on an overall increasing trend during the year, signaling the possible demand pressure in the economy.** With the significant increase in the prices of Non-food items due to the changes introduced to government taxes, core inflation recorded a sharp increase in

Table 4.4  
Key Items with Administered Prices

Item	Unit	Price (year end) - Rs.			Percentage Change (a)					
		2014	2015	2016	2014/2013	2015/2014	2016/2015			
Diesel - CPC	1 ltr.	111.00	95.00	95.00	-8.3	-14.4	-			
Diesel - LIOC	1 ltr.	111.00	95.00	95.00	-8.3	-14.4	-			
Kerosene	1 ltr.	81.00	49.00	44.00	-23.6	-39.5	-10.2			
Petrol	1 ltr.	150.00	117.00	117.00	-7.4	-22.0	-			
Gas-Litro	12.5 kg	1,896.00	1,346.00	1,321.00	-20.9	-29.0	-1.9			
Gas-Laugfs	12.5 kg	1,896.00	1,346.00	1,321.00	-20.9	-29.0	-1.9			
Furnace Oil (1500)	1 ltr.	90.00	80.00	80.00	-	-11.1	-			
Furnace Oil (3500)	1 ltr.	90.00	80.00	80.00	-	-11.1	-			
Electricity - Fixed Charge (b)	Tariff Blocks	First 30 units	30.00	30.00	30.00	-	-	-		
		31 - 60 units	60.00	60.00	60.00	-	-	-		
		61 - 90 units	90.00	90.00	90.00	-	-	-		
		91 - 180 units	480.00	480.00	480.00	52.4	-	-		
		Above 180 units	540.00	540.00	540.00	28.6	-	-		
Electricity - Unit Charge (b)	Tariff Blocks	< 60 units	First 30 units	2.50	2.50	2.50	-16.7	-	-	
		31 - 60 units	4.85	4.85	4.85	3.2	-	-		
	> 60 units	First 60 units	7.85	7.85	7.85	-21.5	-	-		
		61 - 90 units	10.00	10.00	10.00	-16.7	-	-		
		91 - 120 units	27.75	27.75	27.75	4.7	-	-		
		121 - 180 units	32.00	32.00	32.00	4.9	-	-		
		Above 180. units	45.00	45.00	45.00	7.1	-	-		
		Water - Unit Charge (c)	Tariff Blocks	First - 05 units	8.00	8.00	8.00	-	-	-
				06 - 10 units	11.00	11.00	11.00	-	-	-
11 - 15 units	20.00			20.00	20.00	-	-	-		
16 - 20 units	40.00			40.00	40.00	-	-	-		
21 - 25 units	58.00			58.00	58.00	-	-	-		
26 - 30 units	88.00			88.00	88.00	-	-	-		
31 - 40 units	105.00			105.00	105.00	-	-	-		
41 - 50 units	120.00			120.00	120.00	-	-	-		
51 - 75 units	130.00	130.00	130.00	-	-	-				
Above 75 units	140.00	140.00	140.00	-	-	-				
Bus Fare (d)										
					-	-8.2	6.0			

(a) '-' indicates that there were no changes in administered prices during the period.

(b) With effect from 16.09.2014 fixed charges and unit charges of electricity were revised downward.

(c) 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.

(d) With effect from 01.08.2016 passenger bus fares were increased by 6 per cent. Minimum bus fare was increased to Rs. 9 from Rs. 8.

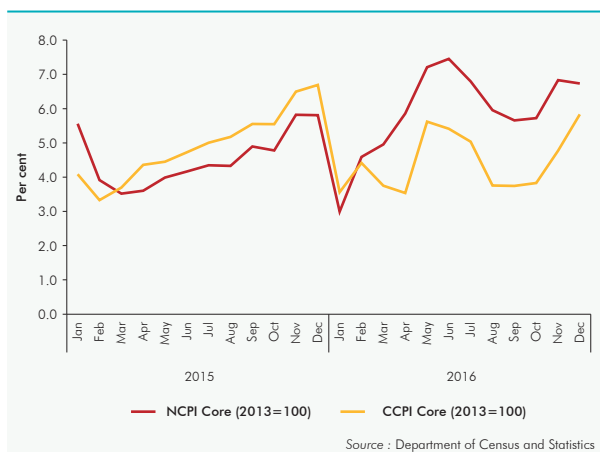
Source: Central Bank of Sri Lanka

May 2016. The sharp decline in year-on-year core inflation during July and August 2016 was partly due to the suspension of changes in government taxes. Due to the re-imposition of government taxes, core inflation increased again in November and December 2016. Accordingly, NCPI Core inflation, which was 3.0 per cent in January 2016, peaked at 7.5 per cent in June 2016 and settled at 6.7 per cent by December 2016. Meanwhile, CCPI Core inflation was 3.6 per cent in January 2016 and reached 5.8 per cent in December 2016.

**Demand side developments have resulted in some degree of price pressure as reflected by the increase in core inflation, particularly during the**

**early part of 2016.** Credit to the private sector by the banking sector grew at higher rates during 2015 and 2016, despite some deceleration during the second half of 2016, in response to monetary tightening by the Central Bank. Meanwhile, wages in the economy also increased at higher rates, particularly in the public sector during 2015 and the early part of 2016, leading to a rise in real income levels. There were several legislations that led to increases in wages in the formal private sector during 2016. Wages in the informal private sector also followed the trend in public sector wages and formal private sector wage developments. These factors contributed to some degree of demand side pull on prices.

**Chart 4.2**  
**Movements of Year-on-Year Core Inflation**



**Inflation expectations remained stable and exhibited some degree of response to monetary and fiscal policy changes introduced during the period.** Inflation expectations of the corporate sector respondents remained anchored around mid-single digit levels and adjusted according to monetary and fiscal policy changes introduced during 2016. Inflation expectations of household sector respondents also attuned to policy changes, particularly, the government tax changes introduced during the period. Inflation expectations of the household sector respondents naturally remain at a level higher than the expectations of the corporate sector. As such, their inflation expectations remained stable around upper single digit levels.

### Producer’s Price Index (PPI)

**Producer price inflation as measured by the movements in the PPI (2013 Q4=100) which is compiled by the DCS, exhibited an overall increasing trend during 2016.** PPI covers producer’s prices of Agriculture, Manufacturing and Utilities (Electricity and Water Supply) sectors of the economy. The year-on-year change in the Agriculture and Manufacturing sub-indices exhibited overall increasing trends during the year. Meanwhile, the year-on-year change in the

**Table 4.5**  
**Sectoral Deflators and GDP Deflator**

Sector	(2010=100)				
	Index			Percentage Change	
	2014 (a)	2015 (a)	2016 (b)	2015/2014 (a)	2016/2015(b)
Agriculture	129.7	133.5	138.7	3.0	3.9
Industry	132.1	132.1	132.8	-0.1	0.5
Services	127.7	128.4	132.5	0.6	3.2
<b>GDP</b>	<b>125.8</b>	<b>126.8</b>	<b>131.4</b>	<b>0.8</b>	<b>3.6</b>

(a) Revised  
(b) Provisional

Source: Department of Census and Statistics

Electricity and Water Supply sub-index moved on a declining trend during 2016. This was mainly due to the decline in the overall cost of production of electricity that prevailed in 2016 compared to 2015, with the increase in low cost hydro power generation, particularly during the rainy season of the first half of 2016.

### GDP Deflator

**GDP deflator, which measures the price movements of all domestically produced goods and services in the overall economy, increased due to the upward price movements in all three major sectors of the economy.** Prices of the Agriculture, Industry and Services sectors increased at 3.9 per cent, 0.5 per cent and 3.2 per cent, respectively, during 2016, compared to 3.0 per cent, -0.1 per cent and 0.6 per cent in 2015. Accordingly, the overall GDP deflator increased to 3.6 per cent in 2016, compared to 0.8 per cent in 2015. During 2016, both NCPI and CCPI inflation remained at levels higher than the GDP deflator.

### 4.3 Wages

**Significant changes were introduced to align wages in line with recent economic developments in the public and private sectors during 2016.** A new public sector salary circular<sup>2</sup> was issued to implement new salary scales. Further, the Rs. 10,000 interim allowance introduced in 2014 and 2015 was added to the

<sup>2</sup> Public Administration Circular 03/2016



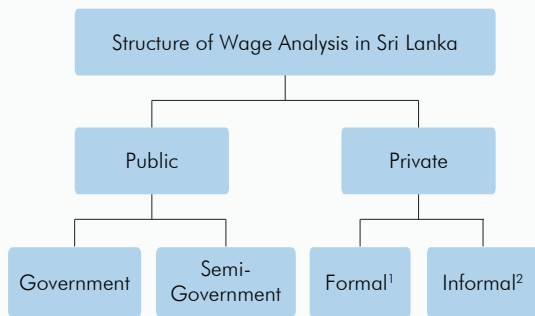
**BOX 06**  
**Measuring Wage Trends in the Economy**

Wage indicators provide insights on possible inflationary pressures and cost dynamics in an economy and are used as early indicators of labour market and demand side developments. Wages set the demand trends in an economy through consumption, savings and investment decisions.

In a global context, statistics on wages are published in various forms across countries. For example, some countries compile specific wage rate indices while others compile average hourly earnings. The United States Bureau of Labour Statistics (BLS) defines a labour price index (Employment Cost Index) as an index designed to measure changes in the hourly compensation of a fixed “basket of jobs”. Labour Cost Index (LCI) of the Euro area is defined as the Laspeyres index of labour costs per hour worked, chain-linked annually and based upon a fixed structure of economic activity, with a current reference year of 2012 (ec.europa.eu, 2017). The United Kingdom (UK) publishes an Index of Labour Cost per Hour (ILCH), which is used as the only short term earnings per hour indicator in the UK. It is an important measure monitored by the Bank of England and UK Treasury as it can provide early indications of economic performance.

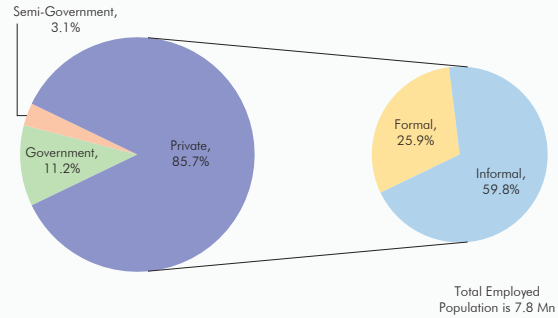
In Sri Lanka, the movement of public sector wages is monitored through the Public Sector Wage Rate Index (PSWRI). The base year of PSWRI is 2012 and it is compiled by obtaining relevant data from Public Administration Salary Circulars. The index monitors wage movements across four categories namely; Senior, Tertiary, Secondary and Primary employees in the public sector, in accordance with the Public Administration Salary Circulars.

**Chart B 6.1**  
**Structure of Wage Analysis**



1 Formal Private Sector wage analysis is based on the employees registered in 21 Wages Boards Trades  
2 Informal Private Sector wage analysis is based on informal employment relating up to 4,250 activities in Agriculture, Industry and Services sectors

**Chart B 6.2**  
**Composition of Employment in Sri Lanka - 2015**



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

In the informal private sector, wages are determined by market forces and nominal wages get adjusted according to changes in demand and supply conditions in the labour market. Initially, wage movements of this segment of employees were analysed in terms of the movements of average daily wages. In 2014, using wage data captured from the Country Wide Data Collection System (CWDCS), an Informal Private Sector Wage Rate Index (IPSWRI) was introduced by the Central Bank with a base year of 2012. The IPSWRI facilitated the analysis of overall wage trends in the informal private sector. The compilation of the IPSWRI involves surveying of employees in around 4,250 activities each month, depending on the seasonality of employment.

Wage movements of the formal private sector are measured through the Wages Boards Wage Rate Index (WBWRI, 1978 Dec= 100) compiled by the Department of Labour. The WBWRI has few drawbacks such as an obsolete base year and non-representation of the

**Chart B 6.3**  
**Characteristics of Existing Wage Rate Indices**

Feature	Informal Private Sector Wage Rate Index	Public Sector Wage Rate Index	Wages Boards Wage Rate Index
Target Population	Approximately 4.49 Mn employees	All Public Sector Employees	Employees in the Wages Boards Trades
Base Year	2012	2012	1978 Dec
Frequency	Monthly	Monthly	Monthly
Weight Structure	Agriculture 17.9% Industry 40.2% Services 41.9%	Senior 5.5% Tertiary 4.8% Secondary 83.3% Primary 6.4%	Agriculture 66% Industry 18% Services 16%



present structure of the economy. Also, the WBWRI is based on minimum wages of respective Wages Boards Trades, which could be far from the realistic wage levels determined based on various factors including demand for and supply of labour, regulatory requirements on minimum wages and trade union negotiations on wage levels in the formal private sector. While re-basing the WBWRI would address some of these issues, the index would continue to suffer from being based on minimum wages of Wages Boards Trades.

A well-functioning private sector essentially forms part of broad-based prosperity in an economy and is considered to be more efficient in utilising the factors of production. Therefore, it is timely and important that the formal private sector wage movements are monitored in a more robust manner, based on a more representative wage rate index. In this regard, the Central Bank is in the process of developing a new wage rate index based on the Laspeyres price index, in collaboration with the Employees' Provident Fund (EPF). In developing this index, wages of employees are considered to be proportionate to the statutory EPF contribution percentages. Separate sub-indices for Agriculture, Industry and Services sectors will be compiled in this process. As opposed to stipulated minimum wages by the Wages Boards used in the existing WBWRI, the proposed index would be based on the actual wages paid to employees. Therefore, it is presumed to be a reliable indicator for evidence based policy making and is expected to provide a more representative picture of wage pressures in the formal private sector.

A separate wage rate index for the semi-government sector employees is also proposed to be developed from the aggregate data made available by the EPF. The proposed wage rate indices for the formal private

sector and the semi-government sector, along with the current wage rate indices for the public and informal private sectors are expected to cover wage trends of the entire spectrum of employment and provide useful insights in terms of demand-side developments in the economy.

As such, these wage rate indices, along with labour market developments observed through quarterly Business Outlook Surveys (BOS) and monthly Purchasing Managers' Index (PMI) surveys, can be used as leading indicators in the monetary policy formulation process.

For economic policy makers, movements of nominal wages remain an important signal to gauge the extent of possible inflationary pressures. Higher wage levels would normally indicate a higher disposable income, holding all other factors constant. Higher levels of income as a result of increased wages would lead to higher amounts of progressive taxes, thereby easing the pressure on the fiscal deficit as well. The mere increase in nominal wages, however, would not suffice to uplift the living standards of the working population. To achieve this objective, real wages would need to rise. On the other hand, a prolonged decline in real wages could also be a signal towards possible future wage pressures and a decline in labour productivity.

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basic salary in five annual phases with effect from 01 January 2016. The actual changes in public sector wages were observed from March 2016 with the commencement of the payments according to the new salary structures. For the private sector, a National Minimum Wage<sup>3</sup> of Rs. 10,000 was enacted with effect from 01 January 2016. Furthermore, the coverage of the workers eligible for the Budgetary Relief Allowance<sup>4</sup> was also expanded by increasing the ceiling from Rs. 20,000 to Rs. 40,000 in 2016.

<sup>3</sup> National Minimum Wage of Workers Act No 3 of 2016

<sup>4</sup> Budgetary Relief Allowance Act No 4 of 2016

## Public Sector Wages

**The nominal wages of public sector employees, as measured by the Public Sector Wage Rate Index (2012=100), increased in 2016.**

This increase was mainly due to the step wise increase in the interim allowance to Rs. 10,000 effected during 2015 and the inclusion of a portion of the interim allowance to the basic salary in 2016, which yielded a higher average wage index in 2016 compared to 2015. As a result, the overall nominal wage rate index of public sector employees increased by 3.9 per cent in 2016 compared to the significant increase of 31.7 per cent recorded in the

Table 4.6  
Wage Rate Indices

Employment Category	Index						Percentage Change					
	Nominal			Real (a)			Nominal			Real		
	2014	2015	2016 (b)	2014	2015	2016 (b)	2014	2015	2016 (b)	2014	2015	2016 (b)
<b>1. Government Employees</b>												
Central Government Employees (2012=100)	117.5	154.8	160.8	111.1	141.1	140.9	10.5	31.7	3.9	6.7	27.0	-0.1
Primary Level Officers	119.2	162.9	170.4	112.7	148.5	149.4	11.6	36.6	4.6	7.7	31.8	0.6
Secondary Level Officers	117.9	155.8	161.6	111.4	142.0	141.7	10.7	32.2	3.7	6.9	27.4	-0.2
Tertiary Level Officers	116.4	149.0	155.5	110.0	135.8	136.3	9.8	28.0	4.4	6.0	23.4	0.4
Senior Level Officers	110.8	134.6	141.4	104.8	122.7	123.9	7.0	21.5	5.0	3.3	17.1	1.0
<b>2. Workers in Wages Boards Trades</b>												
All Wages Boards Trades (1978 Dec=100)	4,012.2	4,127.1	4,127.9	105.3	107.3	103.5	3.7	2.9	0.0	0.4	1.9	-3.6
Workers in Agriculture	4,560.9	4,734.4	4,735.7	119.7	123.1	118.8	2.8	3.8	0.0	-0.5	2.9	-3.5
Workers in Industry and Commerce	3,459.1	3,459.1	3,459.1	90.8	90.0	86.8	8.4	0.0	0.0	5.0	-0.9	-3.6
Workers in Services	2,313.2	2,313.2	2,313.2	60.7	60.2	58.0	3.2	0.0	0.0	0.0	-0.9	-3.6
<b>3. Informal Private Sector Employees</b>												
All Informal Private Sector (2012=100)	118.1	126.7	136.7	111.6	115.5	119.8	7.6	7.3	7.9	3.8	3.5	3.7
Agriculture	118.3	128.3	136.9	111.8	116.9	119.9	6.3	8.5	6.7	2.7	4.6	2.6
Industry	119.0	129.0	140.7	112.5	117.5	123.3	8.2	8.4	9.1	4.4	4.5	4.9
Services	117.1	123.9	132.8	110.6	112.9	116.4	7.5	5.9	7.2	3.8	2.0	3.1

(a) Real wage rate indices for government employees and informal private sector employees are based on NCPI (2013=100) and real wage rate index for workers in wages boards trades is based on CCPI (2006/07=100).

(b) Provisional

Sources: Department of Labour  
Central Bank of Sri Lanka

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previous year. However, public sector employees experienced a marginal real wage erosion of 0.1 per cent in 2016 compared to a significant 27.0 per cent increase in 2015, due to nominal wages increasing at a rate marginally below the inflation rate.

## Private Sector Wages

Two major acts on the National Minimum Wage and the Budgetary Relief Allowance which were introduced by the government led to an increase in the nominal wages of employees in private sector. Nominal wages of the employees in the formal private sector, as measured by the minimum wage rate index of employees whose wages are governed by the Wages Boards Trades (1978 Dec=100), increased marginally. Further, nominal wages of informal private sector employees, as measured by the Informal Private Sector Wage Rate Index (2012=100) increased modestly in

2016. Consequently, real wages of employees in the formal private sector declined in 2016, as the percentage increase in the nominal wage rate index remained insignificant during the period, while employees in the informal private sector enjoyed a real wage growth in 2016. With the expansion of the construction sector, an increase of the wages in masonry and carpentry trades was observed owing to the increased demand for labour in these sectors. On the other hand, the growth in wages partly suggests higher levels of bargaining power of workers in related activities, due to the shortage of labour supply with required quality.

## 4.4 Population, Labour Force and Employment

### Population

Population growth, which is a key driver of long term labour supply of the economy was 1.1 per cent in 2016, recording a marginally

Table 4.7  
District-wise Population and Density (a)(b)

District	2015		2016	
	Population '000 Persons	Density (c)	Population '000 Persons	Density (c)
Colombo	2,375	3,513	2,395	3,543
Gampaha	2,354	1,755	2,372	1,769
Kalutara	1,250	793	1,261	800
Kandy	1,416	739	1,434	748
Matale	502	257	508	260
Nuwara Eliya	740	434	748	438
Galle	1,091	675	1,102	682
Matara	837	659	845	665
Hambantota	628	252	637	255
Jaffna	597	643	602	648
Mannar	104	55	106	56
Vavuniya	179	96	182	98
Mullaitivu	94	39	95	39
Kilinochchi	120	100	122	101
Batticaloa	541	207	550	211
Ampara	677	160	691	164
Trincomalee	397	157	404	160
Kurunegala	1,658	359	1,676	362
Puttalam	790	274	801	278
Anuradhapura	893	134	905	136
Polonnaruwa	419	136	425	138
Badulla	844	299	854	302
Moneragala	472	86	479	87
Ratnapura	1,127	348	1,140	352
Kegalle	861	511	869	516
<b>Total</b>	<b>20,966</b>	<b>334</b>	<b>21,203</b>	<b>338</b>

(a) Provisional Source: Registrar General's Department

(b) The mid-year population data are based on the Census of Population and Housing - 2012.

(c) Number of persons per sq.km

### higher growth compared to the past 4 years.

Accordingly, the mid-year population in 2016 is estimated at 21.203 million. Western province, which is the leading contributor to the Gross Domestic Product (GDP) accounted for 28.4 per cent of the total population. Based on the age structure of the population, the working age population (age 15 and above) comprises 74.8 per cent of the total population. However, 16.5 per cent of the working age population are elders (age 60 and above). These developments reflect the low level of long run labour supply in terms of population dynamics in the country, particularly with the ageing population phenomenon.

## Labour Force

Labour force, which is the key indicator of the current labour supply of the economy, increased during 2016, albeit it was not sufficient to record a notable increase in the Labour Force Participation Rate (LFPR). The labour force, which is defined as the economically active population<sup>5</sup> aged 15 years and above, increased by 1.2 per cent during 2016 to 8.311 million, from 8.214 million in 2015. However, the LFPR, which is the ratio of the labour force to the household population aged 15 years and above, remained at the same level of 53.8 per cent in 2016 as in 2015. This was due to the similar increase in both the household population aged 15 years and the labour force.

The gender gap in labour force participation continued to remain in favour of the male labour force in the country. The female LFPR was recorded as 35.9 per cent during the year 2016, while the male LFPR was 75.1 per cent during the same period, which reflects that the willingness of the females to participate in the labour force is less than half of that of males. Over the years, the female LFPR has shown signs of only marginal improvements, leading to a steady level of overall LFPR of around 54 per cent. The reasons for low female LFPR, are lack of provisions for flexible working hours or work-from-home facilities, lack of regularised and proper child care facilities, a higher share of household responsibilities being shouldered by females and limitations on mobility to and from work due to difficulties associated with public transport. If this trend continues, the adequate supply of labour to drive the economic growth would be challenging in the future. Since female LFPR is an indication of the health of the labour market, apart from the overall LFPR and the unemployment rate, a national level policy action is required to fill such gaps in order to

<sup>5</sup> Economically active population consists of persons who are/were employed or unemployed during the reference period of the Quarterly Labour Force Survey conducted by the DCS

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

Item	2015 (d)	2016				
		Q1	Q2	Q3	Q4	Annual
Household Population '000 Persons	15,282	15,382	15,384	15,560	15,468	15,449
Labour Force '000 Persons	8,214	8,319	8,193	8,376	8,355	8,311
Employed	7,831	7,969	7,815	8,000	8,007	7,948
Unemployed	383	350	378	376	348	363
Labour Force Participation Rate (e)	53.8	54.1	53.3	53.8	54.0	53.8
Male	74.7	75.5	74.9	75.0	74.9	75.1
Female	35.9	36.3	35.1	36.1	36.0	35.9

(a) Household population aged 15 years and above

(b) Provisional

(c) In July 2016, the Department of Census and Statistics published a re-weighted and revised labour force data series for 2011 onwards.

(d) Revised

(e) Labour force as a percentage of household population

Source: Department of Census and Statistics

4 attain maximum utilisation of the labour force and inclusive growth. Industry specific practices, such as recruiting a certain percentage of employees with a gender balance from close proximities, should be encouraged to attract more females into the labour force and maximise the potential in labour force participation.

Employers also stress that there is a deficiency of labour supply in the economy, as reflected by the results of business sentiment surveys conducted by the Central Bank. As per the survey findings, the intention to hire new workers by employers had been positive over time

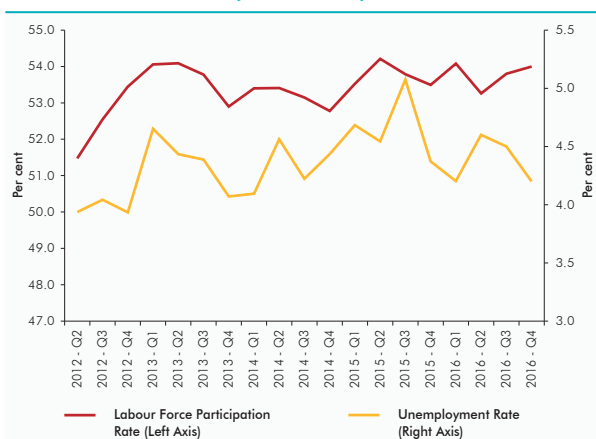
as the level of employment that existed in firms was not adequate to carry out existing and expected operations. The survey findings also reveal that the availability of labour in the economy has declined over time, requiring attention to address the skills mismatch for future employment.

## Employment

The key indicator of the fulfilled labour demand of the economy, the number employed, increased by 1.5 per cent to 7.948 million during 2016 compared to 7.831 million during the previous year. The increase in total employment was mainly caused by the expansion in the Industry and Services activities in the economy. However, employment in Agriculture sector has declined owing to the contraction observed in agriculture related activities during the period under review, due to unfavourable weather conditions. Accordingly, the Agriculture sector contributed to 27.1 per cent of the total employment, while the Industry and Services sectors contributed to 26.4 per cent and 46.5 per cent of the total employment, respectively.

The number employed in the Private sector increased significantly, while all other categories recorded declines in employment during the period under review. Accordingly, the number employed in categories

Chart 4.3  
Trends in Labour Force & Unemployment (2012-2016)



Note: DCS did not conduct the Quarterly Labour Force Survey for the 1<sup>st</sup> Quarter of 2012

Source: Department of Census and Statistics

of Public sector, Employers, Self-employed and Contributing family workers declined during 2016. Employer and Contributing family worker categories have shown notable declines of 10.6 per cent and 5.6 per cent, respectively, during 2016, compared to the previous year. However, the overall impact is moderated by the 7.0 per cent increase in employment in the Private sector, which represents 43.3 per cent of the total employment.

**As per the Public Sector Employment Survey conducted by the Central Bank, the total public sector employment stood at 1,398,742 by end 2016.** This includes employees in Ministries, Departments (including

the Sri Lanka Police, Armed Forces and the Civil Security Department), District Secretariats, Divisional Secretariats, Provincial Councils and Semi Government institutions. Meanwhile, the DCS conducted the Census of Public and Semi Government Sector Employment in November 2016. This was the eighth census in the series of such censuses carried out by the DCS since 1980. The Census covered all Government sector institutions under the Central Government and Provincial Councils as well as the Semi Government Sector. According to the Preliminary Report of the Census in 2016, the number employed in the Government sector was 874,395 and the Semi Government sector was 243,413 making a total public sector employment of

Table 4.9  
Employment by Economic Activity (a) (b) (c) (d)

Sector	'000 Persons						Percentage of Total Employment	
	2015 (e)	2016					2015 (e)	2016
		Q1	Q2	Q3	Q4	Annual		
<b>Agriculture</b>	<b>2,245</b>	<b>2,275</b>	<b>1,962</b>	<b>2,169</b>	<b>2,210</b>	<b>2,154</b>	<b>28.7</b>	<b>27.1</b>
<b>Industry</b>	<b>2,018</b>	<b>2,068</b>	<b>2,121</b>	<b>2,145</b>	<b>2,055</b>	<b>2,098</b>	<b>25.8</b>	<b>26.4</b>
Mining and Quarrying	61	68	59	70	43	60	0.8	0.8
Manufacturing	1,408	1,424	1,450	1,440	1,369	1,421	18.0	17.9
Construction, Electricity, Gas, Steam and Air Conditioning Supply, Water Supply, Sewerage, Waste Management and Remediation Activities	550	576	613	635	644	617	7.0	7.8
<b>Services</b>	<b>3,568</b>	<b>3,626</b>	<b>3,732</b>	<b>3,686</b>	<b>3,741</b>	<b>3,696</b>	<b>45.6</b>	<b>46.5</b>
Wholesale and Retail Trade, Repair of Motor Vehicles and Motor Cycles	1,060	1,047	1,138	1,105	1,119	1,102	13.5	13.9
Transport and Storage	480	513	540	485	527	516	6.1	6.5
Accommodation and Food Services Activities	203	205	185	208	214	203	2.6	2.6
Information and Communication	52	46	74	73	53	62	0.7	0.8
Financial and Insurance Activities	145	170	166	157	145	159	1.8	2.0
Professional, Scientific and Technical Activities	65	67	52	46	54	55	0.8	0.7
Administrative and Support Service Activities	120	113	97	97	122	107	1.5	1.4
Public Administration and Defence Compulsory Social Security	600	633	608	581	615	609	7.7	7.7
Education	324	340	325	358	353	344	4.1	4.3
Human Health and Social Work Activities	137	137	136	151	143	142	1.8	1.8
Other (f)	382	354	412	425	397	397	4.9	5.0
<b>Total employment</b>	<b>7,831</b>	<b>7,969</b>	<b>7,815</b>	<b>8,000</b>	<b>8,007</b>	<b>7,948</b>	<b>100.0</b>	<b>100.0</b>
Percentage of Labour Force	95.3	95.8	95.4	95.5	95.8	95.6		

(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

(c) Provisional

(d) In July 2016, the Department of Census and Statistics published a re-weighted and revised labour force data series for 2011 onwards.

(e) Revised

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

**Table 4.10**  
**Status of Employment (a) (b) (c)**

Period	Public Sector Employees	Private Sector Employees	Employers	Self Employed	Unpaid Family Workers	Per cent
						Total
2015 (d)	15.1	41.0	3.1	32.3	8.4	100.0
<b>2016</b>	<b>14.6</b>	<b>43.3</b>	<b>2.7</b>	<b>31.6</b>	<b>7.8</b>	<b>100.0</b>
1st Quarter	14.7	41.9	2.9	32.5	7.9	100.0
2nd Quarter	15.1	42.6	2.9	31.6	7.8	100.0
3rd Quarter	14.5	44.8	2.3	30.5	7.8	100.0
4th Quarter	14.0	43.6	2.8	31.8	7.8	100.0

(a) Household population aged 15 years and above  
(b) Provisional  
(c) In July 2016, the Department of Census and Statistics published a re-weighted and revised labour force data series for 2011 onwards.  
(d) Revised

Source: Department of Census and Statistics

1,117,808. The Census excludes employees of the subsidiaries of Semi Government Institutions and the uniformed staff of Sri Lanka Army, Sri Lanka Navy and Sri Lanka Air Force. The Census indicates a 30 per cent growth in public sector employment since 2006.

## Unemployment

**The unemployment rate decreased to 4.4 per cent during 2016 from 4.7 per cent recorded in 2015.** During 2016, the total labour force has grown by 1.2 per cent, while a decline of 5.4 per cent was recorded in the unemployed population, reflecting an increase in employment opportunities in the economy during 2016 compared to 2015. Accordingly, the absolute number of unemployed males and females were 153,990 and 212,923, respectively, for the period under review. The drop in both the female unemployment rate from 7.6 to 7.0 per cent and the male unemployment rate from 3.0 per cent to 2.9 per cent, during the period under review, contributed to the overall decrease in the unemployment rate.

**During 2016, unemployment rates by the level of education declined across all categories.** The unemployment rate among the GCE (A/L) and above, GCE (O/L) and grade 6-10

**Table 4.11**  
**Public Sector Employment**

Sector	2014	2015 (a)	2016 (b)	Percentage Change	
				2015/2014 (a)	2016/2015 (b)
Government (c)	1,109,186	1,136,656	1,157,531	2.5	1.8
Semi Government (d)	235,907	238,474	241,211	1.1	1.1
<b>Public Sector</b>	<b>1,345,093</b>	<b>1,375,130</b>	<b>1,398,742</b>	<b>2.2</b>	<b>1.7</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

education level categories declined to 8.3 per cent, 5.9 per cent and 3.3 per cent, respectively, in 2016 compared to 9.2 per cent, 6.4 per cent and 3.4 per cent, respectively, in 2015. The highest rate of unemployment is observed in the GCE (A/L) and above category, which indicates the need for measures aimed at human capital development, to meet labour market demands in the economy.

### **Unemployment rates of all age groups declined during 2016 except for the unemployment rate among youth (15-24 years).**

Unemployment rate among youth has reached 21.6 per cent in 2016, compared to 20.8 per cent in 2015. Difficulty for the youth to find suitable employment in line with their capacity will force them to a state of underemployment<sup>6</sup>, thereby making it difficult for them to overcome poverty and contribute to the overall development of the economy.

**The Youth Not in Employment, Education or Training (NEET) is a newly introduced indicator for Sri Lanka by the DCS in its Labour Force Survey Annual Report 2015.** Accordingly, one out of every four youth belongs to the NEET category, which indicates the youth inactivity and vulnerability. For the year 2015, as published by the DCS, the NEET rate stood at 25.8 per cent. More female NEET rate is more than twice of the

<sup>6</sup> "Underemployment" exists when a person's employment is inadequate, in relation to specified norms or alternative employment, taking into account his occupational skill (training and working experience) – 1966 ICLS Resolution, Sri Lanka Labour Force Survey Annual Report 2015, DCS.

Table 4.12  
Unemployment Rate (a) (b) (c)

Category	2015 (d)	2016				
		Q1	Q2	Q3	Q4	Annual
All	4.7	4.2	4.6	4.5	4.2	4.4
<b>By Gender</b>						
Male	3.0	3.1	3.1	2.7	2.7	2.9
Female	7.6	6.1	7.3	7.6	6.8	7.0
<b>By Educational Level</b>						
Grade 5 and below	...	...	...	...	...	...
Grade 6-10	3.4	3.3	3.5	3.1	3.2	3.3
GCE (O/L)	6.4	5.5	6.2	5.8	5.9	5.9
GCE (A/L) and above	9.2	7.7	8.6	9.3	7.6	8.3
<b>By Age Group</b>						
15-19	24.1	26.9	25.3	27.1	29.1	27.1
20-24	19.7	19.7	21.2	19.8	19.0	19.9
25-29	9.4	9.4	8.3	9.7	9.6	9.2
30-39	3.1	2.3	2.6	2.8	2.1	2.4
40 and above	1.0	0.7	1.0	0.8	0.7	0.8

(a) Household population aged 15 years and above

(b) Provisional

(c) In July 2016, the Department of Census and Statistics published a re-weighted and revised labour force data series for 2011 onwards.

(d) Revised

Source: Department of Census and Statistics

male NEET rate. Young people who are NEET are at a risk of becoming socially excluded, with an income below the poverty line and without an opportunity to improve their skills that would help them to overcome their economic condition. Unless appropriate measures are taken, this situation would become a social and economic burden to the society in the near future and would also result in skill deterioration of the future labour force in the long run.

**High unemployment among youth, females and educationally qualified persons continues to be a severe concern in the Sri Lankan labour market.** Skills mismatch, lack of access to finance and lack of targeted training are the main reasons for such a situation. Although various programmes are in place to address the skills mismatch such as vocational training, skills could be further enhanced with internship and apprenticeship opportunities. To address the issue of lack of access to finance, it has been proposed in the Budget 2017 to encourage banks to lend to identified categories including women and youth. With regard to lack of targeted training, certain booming industries such

as construction and hospitality could be targeted, which are currently suffering from a skilled and semi-skilled labour shortage. Such training would improve the employability of domestic workers, while reducing the need for imported labour. Attitudes of youth who are searching for public sector employment or white collar jobs would need to change in order to cater to the rising labour demands of different dimensions of an expanding economy.

## Foreign Employment

**The total number of departures for foreign employment declined further in 2016, recording a 7.8 percent decrease compared to 2015.** The continuous decline in foreign employment is mainly attributable to the policy actions adopted by the government to minimise the impact on society due to housemaid departures, prior departure training requirements imposed and the lower demand for migrant labour in destination markets due to the slowdown in economic activities, particularly in the Middle East. Accordingly, the total number of departures for foreign employment was recorded

at 242,930 in 2016, compared to 263,443 in 2015. The overall decline was due to female departures declining by 8.9 per cent to 82,628 in 2016, from 90,655 in 2015 and male departures declining by 7.2 per cent to 160,302 in 2016, from 172,788 in 2015.

The profile of departures for foreign employment has shifted from housemaid centered departures through licensed agents to male centered departures through private sources over the past ten years. Skill wise departures for foreign employment reveal that both Professional and Middle Level manpower categories have increased by 12.2 per cent, while departures in all other skill categories recorded a decline in 2016. Although a shift in the skill levels of migrant labour can be observed over the years, with the steps taken as per the strategic direction of the authorities towards “Safe, Skilled Migration” since 2008, the unskilled and housemaid categories still account for 56 per cent of total departures. Only 2.7 per cent of worker departures were under the Professional category in 2016, recording a marginal improvement from 2.4 per cent recorded in 2015. Furthermore, a notable increase in departures to South Korea was also observed, yet 97 per cent of departures were unskilled workers. These developments reflect the scope for continued efforts towards encouraging

safe and skilled migration in the future with a rationalised and a balanced increase in skilled categories along with the decline in housemaid and unskilled categories, thus compensating for the possible reductions in remittances.

A circular was issued by the Sri Lanka Bureau of Foreign Employment (SLBFE) as per 2017 Budget Proposals, setting the minimum wage of unskilled workers to US dollars 350 and skilled workers to US dollars 450, excluding any allowances, with effect from 01 February 2017. This followed the SLBFE announcement of increasing the minimum wage of skilled and unskilled workers up to US dollars 300 with effect from 23 March 2016. The new circular was issued with an objective of encouraging skilled labour migration and strengthening the welfare of migrant employees. However, a minimum wage regulation will raise the cost of Sri Lankan migrant labour, thereby affecting the competitiveness of Sri Lankan migrant employees in the international labour market. Worker remittances is one of the largest sources of foreign exchange earnings in the country and any setback in the remittance flow would adversely affect the external current account.

The SLBFE initiated several programmes to regulate the labour migration process and to ensure the dignity, security and equity of

Table 4.13  
Departures for Foreign Employment

Employment	2014		2015 (a)		2016 (b)	
	Number	% Share	Number	% Share	Number	% Share
<b>Total Placements</b>	300,703	100.0	263,443	100.0	242,930	100.0
<b>By Source</b>						
Licensed Agents	176,829	58.8	116,749	44.3	88,164	36.3
Other	123,874	41.2	146,694	55.7	154,766	63.7
<b>By Gender</b>						
Male	190,217	63.3	172,788	65.6	160,302	66.0
Female	110,486	36.7	90,655	34.4	82,628	34.0
<b>By Manpower Category</b>						
Professional	5,372	1.8	6,251	2.4	6,574	2.7
Middle Level	20,778	6.9	6,951	2.6	8,235	3.4
Clerical & Related	29,267	9.7	12,501	4.7	10,864	4.5
Skilled Labour	73,162	24.3	81,682	31.0	76,559	31.5
Semi-skilled Labour	3,977	1.3	4,847	1.8	3,930	1.6
Unskilled Labour	79,519	26.4	77,985	29.6	71,641	29.5
Housemaid	88,628	29.5	73,226	27.8	65,127	26.8

(a) Revised  
(b) Provisional

Source: Sri Lanka Bureau of Foreign Employment



Table 4.14  
Foreign Employment Departures by Destination

Country	2015 (a)		2016 (b)		Change (b)	
	Number	% Share	Number	% Share	Number	Per cent
Saudi Arabia	74,894	28.4	63,389	26.1	-11,505	-15.4
Qatar	65,139	24.7	59,527	24.5	-5,612	-8.6
Kuwait	38,473	14.6	32,415	13.3	-6,058	-15.7
U A E	43,666	16.6	40,124	16.5	-3,542	-8.1
Other	41,271	15.7	47,475	19.5	6,204	15.0
<b>Total</b>	<b>263,443</b>	<b>100.0</b>	<b>242,930</b>	<b>100.0</b>	<b>-20,513</b>	<b>-7.8</b>

(a) Revised  
(b) Provisional

Source: Sri Lanka Bureau of Foreign Employment

**Sri Lankan migrant workers.** 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. In order to ensure trustworthy foreign employment for Sri Lankan migrant workers, the SLBFE conducted 201 raids on illegal recruitment activities during the year 2016, which is an increase of 81 per cent compared to 2015. Further, to combat human trafficking on a priority basis, the SLBFE has also set up the “Counter Human Trafficking Unit” in 2016.

## Labour Relations and Labour Market Reforms

**The total number of workers involved in strikes and man days lost due to strikes increased in 2016, amidst a decline in the total number of strikes reported, indicating deteriorating labour relations.** The total number of workers involved in strikes increased by 38.5 per cent to 20,652 in 2016, driven mainly by employees of sectors other than plantation. The total number of man days lost due to strikes increased by 21 per cent to 85,637 in the plantation sector and by 61 per cent to 18,690 in sectors other than plantation. The labour issues prevailing in the plantation sector further aggravates the contraction observed in the sector that is led by low productivity. Adverse weather conditions and cost escalation would adversely affect the operations of the plantation industry.

## Ministry of Labour and Trade Union Relations adopted several measures in 2016 to improve workplace cooperation and industrial harmony, with the view of establishing a better working environment in the private sector.

Awareness programmes and workshops were conducted, targeting the managers, key staff members and employees of selected enterprises in the private sector, for promoting social dialog to develop and strengthen industrial harmony at workplaces. Meanwhile, a collective agreement in the plantation sector was signed, increasing the minimum wage of the plantation workers up to Rs. 730. The Ministry has ratified two conventions of the International Labour Organisation during 2016. The first convention is to design an active employment policy, to promote fully productive and freely chosen employment and to address the issues in the fields of youth employment, skills development and local empowerment through economic development, to strengthen labour inspection, child labour and migration in Sri Lanka. The aims of the second are to promote employment of Sri Lankan seafarers and to obtain other benefits of the merchant shipping industry in terms of wellbeing, health and safety of the workers and growth of the sector. Furthermore, permission was granted for private sector industries to extend the administrative relaxation to spread over the working hours on five days of the week for one year, commencing from January 2016.

Table 4.15  
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
2013	21	5,031	41,669	21	6,088	38,754	42	11,119	80,423
2014	31	4,833	29,165	7	1,618	8,158	38	6,451	37,323
<b>2015</b>	<b>31</b>	<b>10,427</b>	<b>70,697</b>	<b>20</b>	<b>4,488</b>	<b>11,597</b>	<b>51</b>	<b>14,915</b>	<b>82,294</b>
1st Quarter	10	1,972	10,291	6	391	2,415	16	2,363	12,706
2nd Quarter	1	1,369	10,952	5	1,525	2,600	6	2,894	13,552
3rd Quarter	19	6,771	47,564	5	374	2,332	24	7,145	49,896
4th Quarter	1	315	1,890	4	2,198	4,250	5	2,513	6,140
<b>2016 (b)</b>	<b>26</b>	<b>10,485</b>	<b>85,637</b>	<b>15</b>	<b>10,167</b>	<b>18,690</b>	<b>41</b>	<b>20,652</b>	<b>104,327</b>
1st Quarter	11	3,876	26,083	2	4,350	8,700	13	8,226	34,783
2nd Quarter	6	2,380	14,661	8	3,022	5,775	14	5,402	20,436
3rd Quarter	3	533	2,877	4	2,773	4,193	7	3,306	7,070
4th Quarter	6	3,696	42,016	1	22	22	7	3,718	42,038

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

(b) Provisional

Source: Department of Labour

## Labour Productivity

**Labour productivity, as measured by Gross Value Added (GVA) (in 2010 prices) per hour worked, increased marginally by 0.2 per cent to Rs. 463.20 per hour in the first three quarters of 2016 from Rs. 462.09 per hour in the same period of 2015.** The level of labour productivity in the Agriculture sector continues to remain the lowest of all three sectors in the economy, with Rs. 173.70 per hour worked compared to Rs. 503.27 and Rs. 561.41 in the Industry and Services sectors, respectively, for the first three quarters of 2016. The Agriculture sector contributes to a share of around 7 per cent of the national output, while approximately 27 per cent of workers in the country are employed in the sector. Many factors contribute to the low productivity in the Agriculture sector, such as traditional methods of cultivation, lack of credit facilities and access to technology, small size of lands and adverse weather conditions. To improve the productivity in the Agriculture sector, a key driver could be the adoption of technology in commercial agricultural activities and the use of high yielding varieties and hybrid seeds. Such actions towards increasing the productivity levels would add value along the agricultural value chain in Sri Lanka and uplift the living standards

of the people who are dependent on the sector, while contributing to overall economic prosperity.

**The Industry and Services sectors have the potential to further improve productivity and facilitate overall economic growth.** Measures could be implemented to improve the productivity levels of the employed population while taking proactive measures to reap unearthed potential of the unemployed. Youth and educationally qualified persons tend to seek employment particularly in the Industry and Services sectors. However, with the skills mismatch between the supply and demand in the domestic labour market, there is a shortage of required labour in order for these sectors to expand. The unemployed population could be utilised effectively through proper skill alignment programmes. Improving

Table 4.16  
Labour Productivity by Major Economic Sectors

	2015 (Q1-Q3)	2015 (a)	2016 (Q1-Q3) (b)
Gross Value Added at Constant (2010) Prices, Rs. mn	5,788,916	7,818,224	6,019,368
Agriculture	492,389	670,106	479,119
Industry	1,691,830	2,264,673	1,790,468
Services	3,604,698	4,883,444	3,749,781
Labour Productivity, Rs. per Hour Worked	462.09	465.15	463.20
Agriculture	163.38	168.40	173.70
Industry	518.05	520.46	503.27
Services	576.91	576.07	561.41

(a) Revised

(b) Provisional

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

the productivity of the already employed population, through continuous development programmes, is also important to sustain the productivity progression. Such actions would help retain the competitive edge of the Industry and Services sectors in the future. It would also address productivity concerns that could emanate from elderly persons participating in the work force. Further, the continuous adoption of latest technological advancements could enhance the productivity of these two sectors.

However, the adoption of technology would have to be enterprise wide and holistic, where every employee and all systems and processes are aligned with the technological adoption, to successfully fulfill the strategic direction of the firm. Workers would have to change their skill levels due to the changing labour demands and also due to the obsolescence of certain jobs with the rapid technological change, partly in line with the structural change in employment patterns of the country.

