

4

PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY

4.1 Overview

The general price level, as measured by the official consumer price indices, fluctuated largely in line with the price movements of the Food category, which declined mostly, during 2018, owing to favourable weather conditions that prevailed during the year. Consequently, year-on-year headline inflation moved on an overall decreasing trend, while year-on-year underlying inflation remained at low levels during the year. Even with the sharp depreciation of the Sri Lankan rupee during the latter part of 2018, the widely expected upward pressure on the price levels was not observed from the behaviour of consumer price indices, mainly due to well anchored inflation expectations, administered pricing mechanisms applied to most of the imported essential items and the decline in oil prices during the last two months of 2018. Inflation expectations, particularly that of the corporate sector, were well aligned with actual inflation. However, the gap between short-term and long-term inflation expectations widened, compared to the previous year. In terms of developments in real wages, growth was observed only in the

informal private sector, partly caused by labour shortages in certain sectors, whilst an erosion of real wages was observed in both public and formal private sectors during 2018. In contrast to the trend observed in the recent past, the labour force declined in 2018, compared to the previous year. Further, a widening in the gender gap within labour force participation, a decline in the employed population and an increase in the overall unemployment rate were observed in 2018. Unemployment among youth, females and educationally qualified categories continued to remain at high levels, despite concerns regarding labour shortages across many sectors. Amidst a decline in foreign employment opportunities, female departures under the housemaid category increased, in contrast to the declining trend observed during the past five years. Meanwhile, in 2018, the number of man days lost due to strikes declined by 14.4 per cent for the private sector industries, while it increased significantly in the plantation sector, compared to the previous year.

4.2 Prices

Movements of the General Price Level

The general price level as measured by the National Consumer Price Index (NCPI, 2013=100) and Colombo Consumer Price Index (CCPI, 2013=100),¹ exhibited mixed movements during 2018 and largely followed the movement of prices of the items in the Food category. Due to supply side improvements supported by favourable weather conditions that prevailed during most parts of 2018, prices of items in the Food category mostly remained at low levels during the year. The prices of items in the Non-food category, which moved on an increasing trend during the year, except for December 2018, contributed partially towards the upward movement of the general price level.

As observed in the previous years, price movement of the Food category closely followed the movement of Volatile Food² prices in 2018. The declining trend of Volatile Food prices during the first four months of 2018 was mainly driven by the declines observed in prices of rice, vegetables and onions, in addition to the intermittent declines observed in the prices of coconut, fresh fish and potatoes. Due to supply shortages during the off season, prices of items in the Volatile Food namely, fresh fish, vegetables, potatoes and onions increased, particularly during the months of May and June. Thereafter, Volatile Food prices declined during August to October, mainly due to the price declines of rice, coconut, fresh fish and vegetables. Notable price increases observed in the Volatile Food prices, in November, were mainly due to the supply side disruptions

caused by adverse weather conditions. However, in December, prices of Volatile Food items remained at relatively lower levels. The prices of various rice varieties moderated during 2018, mainly due to recovery in paddy production owing to favourable weather conditions. The price of coconut declined throughout 2018 due to the recovery in coconut production, as a result of favourable weather conditions and import of coconut kernel since December 2017. The prices of fresh fish, which were at low levels at the beginning of the year, increased sharply in the second quarter of 2018 due to low production, resulting from adverse weather conditions and fishermen's protests against the increase of kerosene price by the government. However, fish prices eased during the remaining months of 2018.

In contrast to the movement of the prices of Volatile Food items, prices of the Food category excluding the Volatile Food items moved on an overall increasing trend in 2018, mainly due to intermittent price increases observed in items such as milk powder, dried fish, bread, wheat flour and canned fish. A price revision in milk powder took place after almost three years where the price of a 400g packet was increased by Rs. 20 on 04 May 2018, considering the price developments in

Table 4.1
Revisions to Special Commodity Levy in Selected Food Items

Item	Before Revision (Rs. per kg)	After Revision (Rs. per kg)	Effective Date	
Imported Big Onions	1.00	40.00	02.05.2018	
	40.00	20.00	04.12.2018	
Imported Potatoes	30.00	40.00	02.05.2018	
	40.00	20.00	04.12.2018	
Dhal				
	Whole	1.00	7.00	09.05.2018
		7.00	2.00	02.11.2018
Split	3.00	12.00	09.05.2018	
	12.00	7.00	02.11.2018	
Imported Rice	Remained at 0.25 cents per kg till 30.04.2018. (a)			

(a) With effect from 01 May 2018, General Duty of Rs. 50.00 per kg or 30% of CIF value, whichever is higher, was imposed. In addition, 15% of VAT, 7.5% of PAL and 2% of NBT was also imposed on imported rice.

Source: Ministry of Finance

1 The Department of Census and Statistics (DCS), compiles official consumer price indices, namely, National Consumer Price Index (NCPI, 2013=100) and Colombo Consumer Price Index (CCPI, 2013=100) on a monthly basis. The NCPI demonstrates the price movements of selected consumer items at the national level while the CCPI reflects the same among urban households in the Colombo district.

2 Volatile Food includes rice, meat, fresh fish and seafood, coconut, fresh fruits, vegetables, potatoes, onions and selected condiments.

Figure 4.1

Prices, Wages and Employment Snapshot - 2018

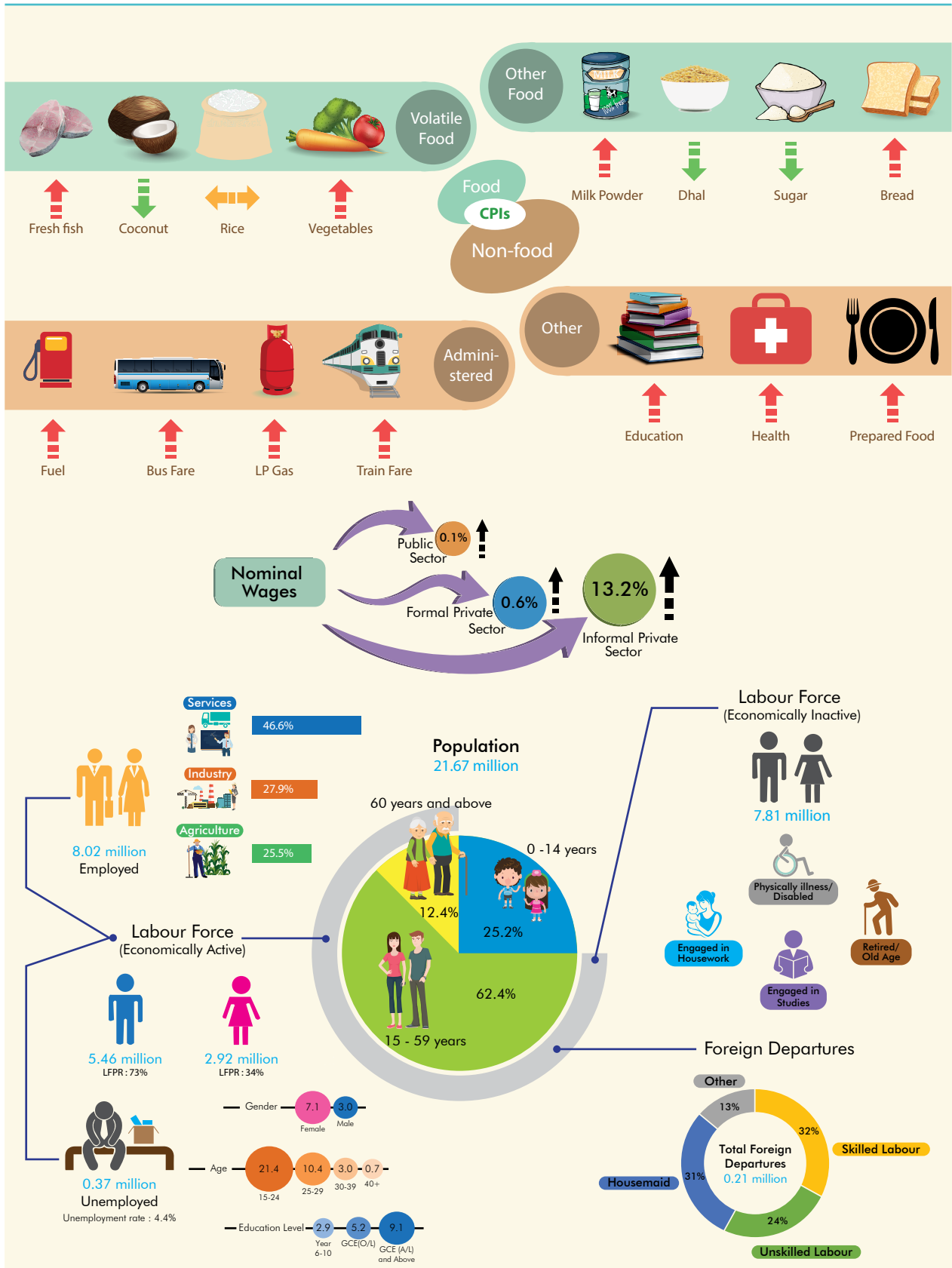


Table 4.2
Retail Prices of Key Domestically Produced and Imported Items







Item	Unit	Annual Average				
		Price - Rs.			Percentage Change	
		2016	2017	2018	2017/ 2016	2018/ 2017
Domestic Rice - Samba	1 kg	92.75	98.79	109.33	6.5	10.7
Kekulu (Red)	1 kg	69.52	87.94	83.18	26.5	-5.4
Kekulu (White)	1 kg	72.12	83.64	83.35	16.0	-0.3
Nadu	1 kg	78.71	94.37	95.08	19.9	0.8
Up-country Vegetables - Beans	1 kg	204.75	192.36	241.09	-6.1	25.3
Carrot	1 kg	188.86	193.98	237.94	2.7	22.7
Cabbage	1 kg	154.71	155.38	177.64	0.4	14.3
Beetroot	1 kg	165.81	163.14	182.43	-1.6	11.8
Low-country Vegetables - Brinjals	1 kg	133.08	161.72	167.32	21.5	3.5
Ladies Fingers	1 kg	139.29	148.89	167.02	6.9	12.2
Ridge Gourd	1 kg	155.58	192.23	177.71	23.6	-7.6
Bitter Gourd	1 kg	200.51	236.98	229.05	18.2	-3.3
Coconut (medium)	nut	46.12	67.67	69.31	46.7	2.4
Fish - Tuna	1 kg	860.68	950.17	956.40	10.4	0.7
Eggs	each	16.10	14.08	16.10	-12.5	14.3
Imports Sugar	1 kg	100.69	107.48	107.73	6.7	0.2
Milk Powder	400g	325.00	325.00	337.33	0.0	3.8
Red Dhal	1 kg	191.16	180.52	148.50	-5.6	-17.7
Wheat Flour	1 kg	89.66	89.33	91.59	-0.4	2.5

Source: Department of Census and Statistics

the world market. However, a Customs Duty waiver of Rs. 50 per kilogramme of milk powder was introduced with effect from 19 September 2018. The prices of wheat flour and bread were revised upward by Rs. 5 each with effect from 01 and 04 September 2018, respectively. Reversing its increasing trend observed in 2017, the price of sugar moved on an overall declining trend during the year except for September and October 2018, where significant price hikes were observed. Further, a Maximum Retail Price (MRP) of Rs. 100 and Rs. 105 were imposed on unpacketed and packeted white sugar, respectively, with effect from 13 October 2018, to contain the price pressure. The Special Commodity Levy (SCL) on dhal, which was revised upward in May 2018, was revised downward in November 2018. As a result, dhal prices were on a declining trend during the year. It is noteworthy that the price of dhal remained at lower levels, in 2018, in comparison to several previous years.

Prices of the items in the Non-food category moved on an increasing trend during the year except in December 2018. With the introduction of a pricing formula to determine fuel prices in accordance with global fuel price movements, upward adjustments occurred in May, July, September and October, while downward adjustments occurred during November and December. Subsequent to fuel price revisions, upward and downward price revisions to bus fares and three-wheel fares occurred during the year. Meanwhile, a 15 per cent increase to train fares came into effect from 01 October 2018 after a lapse of ten years. However, the minimum train fare remained unchanged. Moreover, LP gas prices indicated an overall increase during the year subsequent to several price revisions, considering the soaring gas prices in the world market and depreciation of the rupee against the US dollar. This, in turn, contributed towards the price increase in prepared food items in the Restaurants and Hotels

Figure 4.2
 Administered Price Revisions in Key Non-food Items - 2018

		BEFORE REVISION	AFTER REVISION	PRICE REVISION	EFFECTIVE DATE	
PETROL 92 (a) (Rs.)		CPC (b)	117.00	137.00	20.00	11.05.2018
			137.00	145.00	8.00	11.07.2018
			145.00	149.00	4.00	11.09.2018
			149.00	155.00	6.00	11.10.2018
			155.00	145.00	-10.00	02.11.2018
			145.00	140.00	-5.00	16.11.2018
			140.00	135.00	-5.00	01.12.2018
		135.00	125.00	-10.00	22.12.2018	
		LIOC (c)	126.00	137.00	11.00	11.05.2018
			137.00	146.00	9.00	06.07.2018
			146.00	150.00	4.00	11.09.2018
			150.00	155.00	5.00	11.10.2018
			155.00	153.00	-2.00	03.11.2018
			153.00	148.00	-5.00	16.11.2018
148.00	143.00		-5.00	01.12.2018		
143.00	133.00	-10.00	22.12.2018			
AUTO DIESEL (a) (Rs.)		CPC (b)	95.00	109.00	14.00	11.05.2018
			109.00	118.00	9.00	11.07.2018
			118.00	123.00	5.00	11.09.2018
			123.00	116.00	-7.00	02.11.2018
			116.00	111.00	-5.00	16.11.2018
			111.00	106.00	-5.00	01.12.2018
			106.00	101.00	-5.00	22.12.2018
		LIOC (c)	100.00	111.00	11.00	11.05.2018
			111.00	118.00	7.00	06.07.2018
			118.00	123.00	5.00	11.09.2018
			123.00	129.00	6.00	11.10.2018
			129.00	118.00	-11.00	03.11.2018
			118.00	111.00	-7.00	16.11.2018
			111.00	106.00	-5.00	01.12.2018
106.00	101.00	-5.00	22.12.2018			
KEROSENE (a) (Rs.)		44.00	101.00	57.00	11.05.2018	
		101.00	70.00	-31.00	13.06.2018	
LP GAS (d) (Rs.)		1431.00	1676.00	245.00	28.04.2018	
		1676.00	1538.00	-138.00	30.06.2018	
		1538.00	1733.00	195.00	27.09.2018	
BUS FARE				12.5%	23.05.2018	
				4.0% (e)	21.09.2018	
				-4.2% (e)	27.12.2018	
TRAIN FARE (e)				15%	01.10.2018	

- (a) Price revision per litre
 (b) Ceylon Petroleum Corporation
 (c) Lanka IOC PLC
 (d) Price revision of a 12.5kg LP Gas cylinder is considered.
 (e) Minimum fare was not revised.

Source: Central Bank of Sri Lanka

sub-category. A rise in the tuition fees for secondary education was observed at the beginning of the year, while prominent price increases in payments to laboratory tests and room charges of private hospitals were observed in November 2018. Prices of items in the Clothing and Footwear sub-category increased, during 2018, compared to the previous year, due to the depreciation of the domestic currency. However, its impact on Consumer Price Indices (CPIs) was marginal, as its weights are relatively minimal.

Consumer Price Indices

National Consumer Price Index

The NCPI exhibited mixed movements during 2018, recording 125.8 index points in January and reaching 127.1 index points in December. During the first three months of the year, the NCPI decreased on a month-on-month basis mainly due to the declines observed in the prices of the items in the Food category and increased thereafter until July on account of increases in prices of the items in the Non-food category. Meanwhile, price increases observed in the items in the Food category also contributed to the month-on-month increase of the NCPI that was observed in May and June 2018. The month-on-month decline observed in the NCPI during August and September was attributed to the decrease in prices of the items in the Food category, whereas the increase in the NCPI during October was driven solely by the increase in the

prices of the items in the Non-food category. The NCPI increased in November and decreased in December owing to changes in the prices of the items in both Food and Non-food categories.

Colombo Consumer Price Index

The CCPI also exhibited a similar trend to that of the NCPI during the year. The CCPI increased from 122.8 index points in January 2018 to 126.3 index points in December 2018. In terms of contribution, the change in the CCPI was mainly attributed to the movements of the prices of the items in the Food category, whereas prominent contributions from the prices of the items in the Non-food category were observed only in certain months. Owing to the month-on-month decrease in the prices of the items in the Food category, the CCPI decreased during the first three months of 2018. However, the CCPI increased thereafter until August 2018, due to increases in prices of the items in both Food and Non-food categories. The movement of CCPI in April and August was solely driven by the increase in the prices of items in the Non-food category. Afterwards, the CCPI decreased until October in response to the declining prices of items in the Food category. The price increases in items in both Food and Non-food categories contributed to its increase in November, while the increase in prices of items in the Food category contributed to its increase in December.

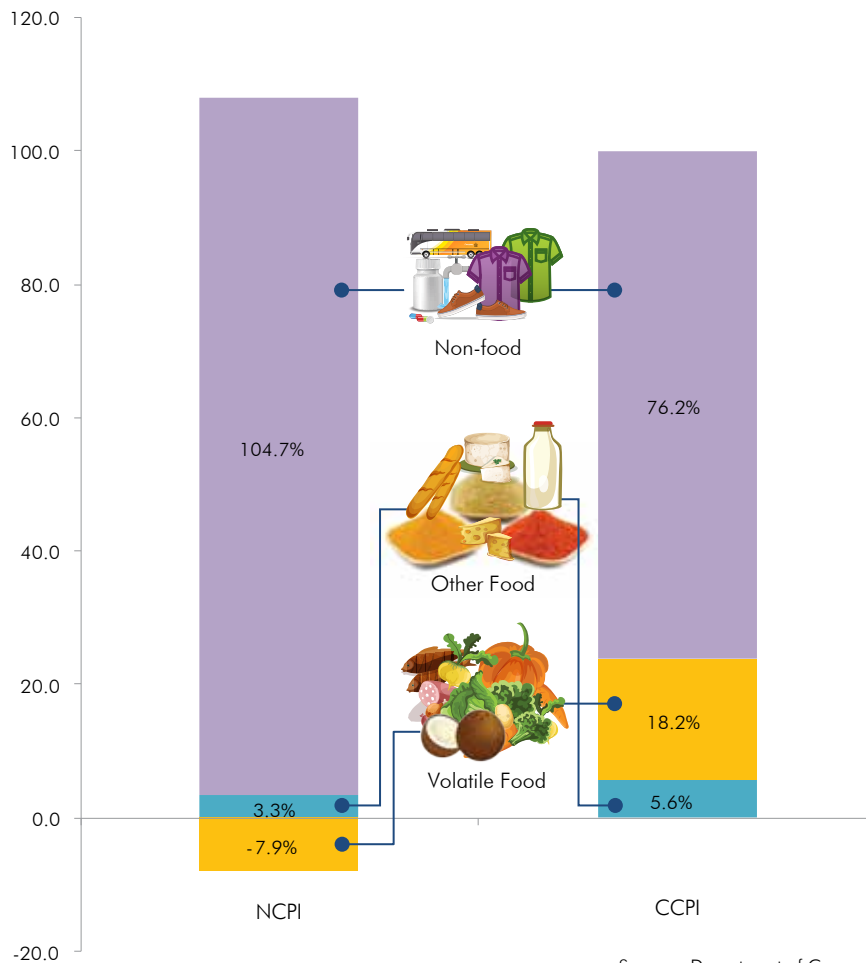
Table 4.3
Changes in Price Indices

Index	Index (year end)		Year-on-Year Percentage Change		Annual Average Percentage Change	
	2017	2018 (a)	Dec.2017/ Dec.2016	Dec.2018/ Dec.2017 (a)	2017/2016	2018/2017 (a)
NCPI (2013=100)	126.6	127.1	7.3	0.4	7.7	2.1
CCPI (2013=100)	122.9	126.3	7.1	2.8	6.6	4.3
PPI (2013 Q4=100)	131.8	137.5	14.3	4.3	17.0	6.3
GDP Deflator (2010=100)	143.6 (a)(b)	149.8	-	-	8.2 (a)(b)	4.3

(a) Provisional
(b) Revised

Source: Department of Census and Statistics

Figure 4.3
Annual Average Contribution in NCPI and CCPI - 2018



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



Headline Inflation

The headline inflation, as measured by year-on-year change in the NCPI, exhibited an overall declining trend with mixed movements during 2018. As such, the NCPI based year-on-year headline inflation remained below 4.0 per cent during 2018, except for January, which recorded 5.4 per cent. In October 2018, the headline inflation declined to 0.1 per cent, recording the lowest value since January 2016. The observed low headline inflation rate was mainly attributable to the high base that prevailed, in 2017, due to high food prices. The NCPI based food inflation demonstrated a similar trend to that of NCPI

Figure 4.4
Contribution to Year-on-Year Percentage Change in NCPI - 2018



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

headline inflation during the year. The NCPI based food inflation in October 2018 was -6.6 per cent, the lowest since January 2016. However, the NCPI based Non-food inflation exhibited an increasing trend during the first ten months of 2018 and declined thereafter. Meanwhile, the NCPI based annual average inflation reversed its increasing trend observed during 2017 and declined continuously from 7.6 per cent in January 2018 to 2.1 per cent in December 2018.

Headline inflation, as measured by the year-on-year change of CCPI, mostly remained within the target band of 4.0-6.0 per cent during the first nine months of 2018 and decreased below 4.0 per cent thereafter. The decline observed in CCPI based headline inflation from January to March was due to declining prices of items in the Food category. It followed an increasing trend during May to August recording a peak of 5.9 per cent in August and gradually declined to 2.8 per cent in December. The base effect was the lone contributor towards the decrease in CCPI based headline inflation in April and the increase of the same in August 2018. The CCPI based food inflation, in October, was -2.3 per cent, the lowest since January 2016. The annual average CCPI inflation declined from

6.6 per cent, in January 2018, to 4.3 per cent, in December 2018, while recording 5.6 per cent for three consecutive months from June to August 2018.

Inflation arising from imported items in the consumer basket of the official price indices declined during the early months of 2018 and subsequently reversed its trend recording a peak in October and declined thereafter. The administered pricing mechanisms applicable to various imported essential items along with downward adjustments to fuel prices in the local market contributed towards this decline observed during the latter part of 2018. Further, reduction in bus fares and SCLs, market competition and the agriculture sector recovery also impacted favourably in achieving subdued inflation levels amidst the sharp rupee depreciation towards the end of the year.

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Figure 4.5
Contribution to Year-on-Year Percentage Change in CCPI - 2018

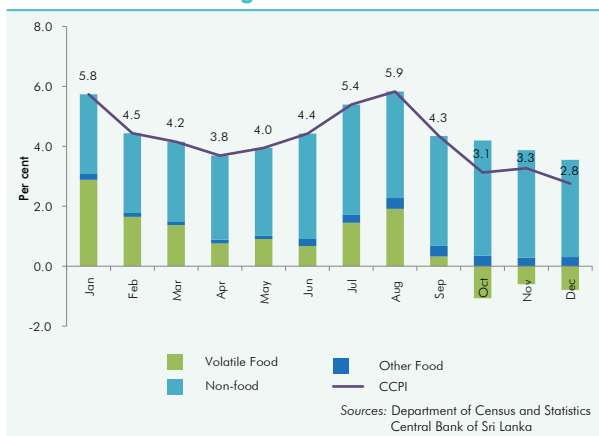
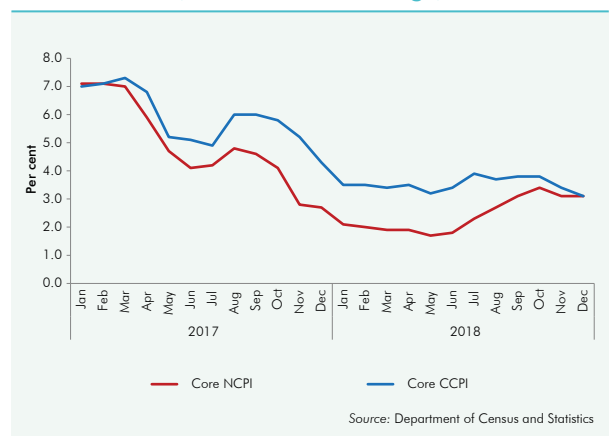


Figure 4.6
Movements of Core Inflation (Year-on-Year % Change)



However, it increased thereafter recording 3.4 per cent in October, its peak for the year, and decreased to 3.1 per cent in November and December 2018. The increases observed from June to September were due to increases observed in the prices of the items in both Food and Non-food categories, whereas the increase observed, in October, was solely due to the increase of the prices of items in the Non-food category. Meanwhile, the CCPI based year-on-year core inflation increased from 3.5 per cent, in January, to 3.9 per cent, in July, before declining to 3.1 per cent in December 2018. The movement of the CCPI based core inflation moved in line with the price trends of the items in the Non-food category since it occupies a higher weight in the CCPI basket.

Producer Price Inflation

The producer price inflation measured by the year-on-year change in the Producer's Price Index (PPI, 2013 Q4=100) displayed an overall declining trend with mixed movements during the year. The year-on-year producer price inflation of the agriculture sub-sector decreased until October 2018 and increased thereafter, while that of the manufacturing sub-sector demonstrated an overall increase with mixed movements during the year. However, the producer price inflation in the electricity and water supply sub-sector remained stable during 2018.

Figure 4.7
Movements of Producer Price Inflation
(Year-on-Year % Change)

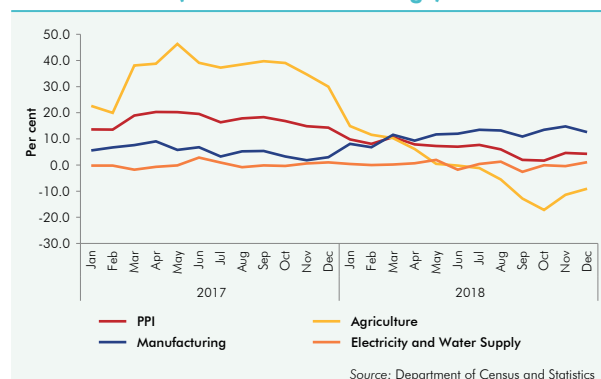


Table 4.4
Sectoral Deflators and GDP Deflator

Sector	(2010=100)				
	Index			Percentage Change	
	2016 (a)	2017 (a) (b)	2018 (b)	2017/ 2016 (a) (b)	2018/ 2017 (b)
Agriculture	138.2	162.6	169.0	17.6	4.0
Industry	139.2	146.7	154.8	5.4	5.5
Services	132.1	140.7	147.7	6.6	4.9
GDP	132.8	143.6	149.8	8.2	4.3

(a) Revised
(b) Provisional

Source: Department of Census and Statistics

GDP Deflator

The GDP deflator, which measures the price movements of all domestically produced goods and services in the economy, decreased during 2018 compared to the previous year mainly due to subdued price movements observed in both agriculture and services related activities. Accordingly, the overall GDP deflator decreased to 4.3 per cent in 2018 compared to 8.2 per cent in 2017. The agriculture sector deflator declined significantly from 17.6 per cent, in 2017, to 4.0 per cent, in 2018, while the services sector deflator decreased from 6.6 per cent to 4.9 per cent in 2018. However, the industry sector deflator increased marginally from 5.4 per cent, in 2017, to 5.5 per cent in 2018.

Inflation Expectations

Inflation expectations of the corporate sector declined, in 2018, aligning well with the trends of actual inflation. However, it was observed that the gap between long-term and short-term inflation expectations widened compared to the previous year as the corporate sector expects an increase in inflation in the long-term. Weakening of the domestic currency, supply side disruptions and lack of stability and growth were the main reasons cited by respondents for their expected level of long-term inflation. Inflation expectations of the corporate sector have closely

BOX 05

Compiling Property Price Indices: An Application to the Condominium Market in Sri Lanka

The need for measuring house price inflation using internationally comparable property price indices was strongly felt after the 2008 global financial crisis, followed by economic stagnation, where the burst of the property bubble in the United States was a major cause. Post-crisis investigations have highlighted certain important economic and financial data gaps hindering policymakers from better assessing the conditions of the economy and responding effectively. Compiling property price indices, for both residential and commercial segments, was one of the proposals¹ of the International Monetary Fund (IMF) and the Financial Stability Board (FSB) to fill this information gap. This was endorsed by the G20 countries and also prompted many other countries to explore ways and means of compiling property price indices.

It is important to monitor the movements of house prices since affordability and price changes have a direct impact on consumer spending, which in turn affects price stability. Moreover, the real estate sector related activities contribute significantly to economic growth, where considerable changes in the sector leads to volatility in overall economic growth. The real estate segment has an immense influence on the financial market as well, due to its exposure to financial institutions through loans and advances. Therefore, high quality and timely property price indices serve as leading indicators for economic growth as well as the stability and soundness of the financial system, making them an essential input into the monetary policy and financial policy formulation process. In addition, the expectations of higher future returns from the property market would attract foreign investment to the economy. Thus, availability of reliable and comparable property price indices would be useful for potential investors to compare against other investment options as well as international property markets.

Although the concept of property price indices is a relatively new phenomenon for many countries, some countries have been compiling them for a considerable period of time. Nevertheless, developing an index to capture temporal fluctuations of property prices is extremely challenging, due to the highly heterogeneous nature of property, where no two entities are identical, and also due to changes in quality over time (because of changes to close by amenities, technological advancements that make the existing facilities obsolescent etc.). Further, since properties are not transacted frequently, only a few directly comparable sales would exist during a given period for a given market. Due to these reasons, it is essential to perform quality adjustments in compiling property price indices. After significant research into these concerns, a group of experts consisting of

both academics and practitioners has come up with international manuals² on price indices, which present four main methodologies, namely, Stratification or Mix Adjustment method, Hedonic Regression method, Repeat Sales method and Appraisal-Based method, which are used globally to adjust for quality in estimating property price indices. Out of these, the Hedonic Regression method has been recommended as the most suitable technique available at present to construct a constant quality index, provided a data source with required granular levels is available.

Property Price Indices for Sri Lanka

The property market is a significant component of the economy in the Sri Lankan context as well, complemented by the recent expansion in the real estate sector, especially in relation to the condominium segment. Accordingly, in line with global practices, the Central Bank of Sri Lanka (CBSL) also decided to expand its surveillance to cover these new developments. As a result, compiling a Residential Property Price Index focusing on the condominium segment was initiated in 2016, in addition to the Land Price Index (LPI)³ available since 1998. Considering the constraints in obtaining information on official sales transactions that have occurred during a specific period of time due to the lack of automated platforms and the unavailability of granular level data in official records, alternative data sources were explored. Accordingly, an initial residential property price index was compiled on a monthly basis using advertised prices. However, prices obtained through this process may not indicate the actual transacted prices, which are normally lower than the advertised prices. Moreover, all advertised properties may not be sold during the period concerned. Further, under this methodology, neither was it possible to recognise the reasons behind price movements nor to obtain market specific information. To address these concerns, it was decided to launch a Condominium Market Survey, which would not only provide information on actual property sales to compile a price index, but also a more holistic view of the market.

Condominium Market Survey

The Condominium Market Survey was launched during the 3rd quarter of 2017 with a view to obtaining market information, including sales prices on a quarterly basis. The respondents consist of the members of the

¹ In October 2009, the International Monetary Fund (IMF) and the Financial Stability Board (FSB) presented a report to G20 Finance Ministers and Central Bank Governors, proposing 20 recommendations (G20 Data Gap Initiatives – Phase I and II) to be implemented to address the data gaps identified.

² This includes the "Handbook on Residential Property Prices Indices (RPPIs)", which was published in 2013 by Eurostat with the aim of facilitating the setting-up of residential property price indices in countries by giving practical guidance on the compilation of house price indices, and the publication "Commercial Property Price Indicators: Sources, Methods and Issues", which was published in 2017 by Eurostat including the sources of data and methodologies in relation to Commercial Property Price Indices (CPPIs).

³ The CBSL compiled LPI (base year: 1998) annually from 1998-2008 and bi-annually from 2009-2017, covering 5 Divisional Secretariat (DS) divisions in the Colombo District using per perch land price data for residential, commercial and industrial lands collected from the Government Valuation Department. With the increasing importance of monitoring land prices due to the recent developments in the real estate sector, the geographical coverage of LPI was later expanded to cover all DS divisions in the Colombo District and revised its base period to 1st half of 2017.

Condominium Developers Association of Sri Lanka (CDASL) and other market players. Market information is obtained through a questionnaire distributed among the survey participants.

Compilation of Condominium Property Price Index

Considering the heterogeneity of condominium units, it was decided to employ the Hedonic Regression method in compiling the Condominium Property Price Index for Sri Lanka to adjust for quality, since it recognises a residential property as a bundle of characteristics. A vital part in this process is selecting the price determining features, which would be considered as the explanatory variables in the regression. Based on responses to the survey, other country experiences and measurability, the following eight variables were selected to be used in the regression.

Figure B 5.1
Variables used in Index Compilation



Source: Central Bank of Sri Lanka

The Condominium Property Price Index for each period was arrived at using representative prices derived through the regressions. At present, the Index is at preliminary stages of development, hence considered only for internal analysis and not available in the public domain.

Market Information obtained through the Condominium Market Survey

As per the information provided by the property developers, the number of sales transactions reported per quarter remained relatively stable except for the 1st quarter of 2018.⁴ According to the analysis of the composition of sales transactions, the share of the category of condominiums priced below Rs. 25 million shows an increase, while the shares of other categories have declined during the period under review. When the reported sales transactions are categorised based on the type of development⁵ and the location, it was found that the sales are still concentrated in the Colombo District with the majority of units sold belonging to single condominium projects.

4 The number of condominium sales transactions increased substantially during the 1st quarter of 2018 due to a possible price rise with effect from 1st April, 2018 as per the budget proposal to impose 15 per cent Value Added Tax (VAT) on condominium sales, which was later postponed by one year.

5 Since a standardised/accepted method to classify condominiums is not available, the condominium projects reported to the survey were classified into two categories, namely, mixed development projects and single condominium projects, based on the type of the development. A mixed development project includes hotels, office spaces, entertainment facilities etc., in addition to the residential spaces, whereas a single condominium project consists of residential spaces only.

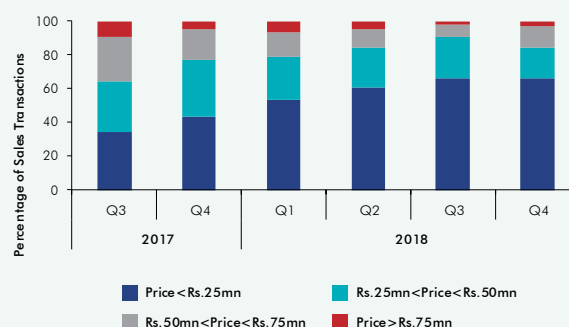
Table B 5.1
Sales Transactions and Average Prices for the 4th Quarter of 2018

Type of Development	No. of Reported Sales Transactions	Average Price of a Unit (Rs. mn)
Mixed Development Projects (a)	21	71.46
Single Condominium Projects in Colombo District	199	25.24
Single Condominium Projects in Western Province excluding Colombo District	17	8.24
Single Condominium Projects in Other Provinces	2	22.15

(a) All mixed development projects reported to the survey are in Colombo District.

Source: Central Bank of Sri Lanka

Figure B 5.2
Composition of Sales Transactions (a)

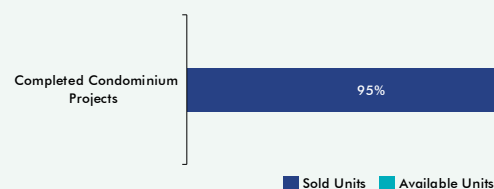


(a) The percentages are based on the number of sales transactions reported to the condominium market survey.

Source: Central Bank of Sri Lanka

As per the information provided by 26 condominium developers to the latest survey, 7,659 completed condominium units were available by end 2018, while reported numbers for ongoing and planned units were 9,564 and 6,332, respectively. Considering the sales, it is identified that, 95 per cent of the units in completed condominium projects have been sold. Further, 48 per cent of the units in ongoing mixed development projects and 53 per cent of the units in ongoing single condominium projects, were reserved by end 2018.

Figure B 5.3
Percentage of Units Sold in Completed Condominium Projects (a)

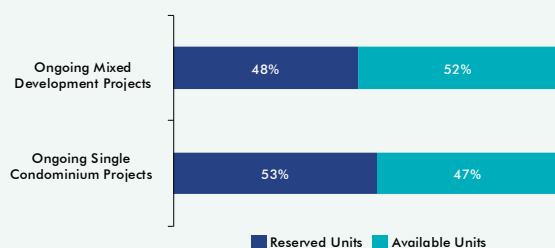


(a) Currently all completed projects belong to the single condominium projects category and no completed mixed development projects are available.

Source: Central Bank of Sri Lanka



Figure B 5.4
Percentage of Units Reserved in Ongoing
Condominium Projects



Source: Central Bank of Sri Lanka

When the funding structure of condominium developments is considered, according to developers' responses, funds were mainly generated through bank loans, pre-sale deposits and equity. In addition, it could be observed that the majority of the condominium buyers were resident Sri Lankans and most of them have purchased condominium units for living rather than investment. The majority of buyers have purchased condominium units using their own funds.

Way Forward

Given the prevailing constraints on data collection, the CBSL is working on expanding the geographical coverage and increasing the response rate of the existing data sources to improve the representativeness of the Index and other market information. In addition, exploring further avenues utilising big data concepts and liaising with other relevant stakeholders are in the pipeline and will be implemented shortly. In line with these, the CBSL is in constant dialogue with international counterparts to gather experience on addressing the challenges faced in developing property price indices via participating in subject specific training, forums, seminars and research conferences. The compilation methodology is also expected to be improved, in consultation with global experts, to gauge the sentiments of the property market as a leading economic indicator to strengthen the evidence based forward looking policy making process, in Sri Lanka. Subsequent to these enhancements and sufficient maturity of the data series, the Index would be published for the information of the general public.

4

responded to monetary and fiscal policy measures with a lag. Even though inflation expectations of the household sector naturally remain at a level higher than the expectations of the corporate sector, it also followed a declining trend in 2018.

4.3 Wages

During 2018, wage rate indices indicated signs of wage pressure in the economy at a lower magnitude with easing inflation. The real wage erosion was prominent in the public and formal private sectors as there was only a marginal increase in nominal wages, in 2018, compared to 2017. Therefore, the demand pressure arising from wages on the general price level remained subdued during the year.

Public Sector Wages

The process of including the special allowance and interim allowance to the basic salary of public sector employees continued for the third consecutive year in 2018. Accordingly,

the nominal wages of public sector employees, as measured by the annual average change in the Public Sector Wage Rate Index (2012=100), increased marginally by 0.1 per cent in 2018. Real wages of public sector employees declined by 2.0 per cent in 2018 as a result of the low inflation that prevailed during the year, compared to the real wage erosion of 7.2 per cent in 2017. However, according to the Public Administration Circular No. 03/2016, the increase in nominal wages of public sector employees will be higher during the next two years than the increase observed during the previous three years. In addition, a fifteen-member Special Salaries Commission was appointed to resolve salary anomalies in the public sector in August 2018.

Private Sector Wages

Nominal wages of the employees in the formal private sector, as measured by the annual average change in the minimum Wage Rate Index (1978 December=100) of employees whose wages are governed by the

Table 4.5
 Wage Rate Indices

Employment Category	Index				Percentage Change			
	Nominal		Real		Nominal		Real	
	2017	2018	2017	2018	2017	2018	2017	2018
1. Government Employees								
All Government Employees (2012=100)	160.8	161.0	130.9(a)	128.3(a)	0.0	0.1	-7.2	-2.0
Primary Level Officers	170.4	170.4	138.7(a)	135.7(a)	0.0	0.0	-7.2	-2.2
Secondary Level Officers	161.6	161.6	131.5(a)	128.8(a)	0.0	0.0	-7.2	-2.1
Tertiary Level Officers	155.5	155.9	126.6(a)	124.2(a)	0.0	0.3	-7.2	-1.9
Senior Level Officers	141.4	144.9	115.0(a)	115.5(a)	0.0	2.5	-7.2	0.4
2. Workers in Wages Boards Trades								
All Wages Boards Trades (1978 Dec=100)	4,128.6	4,155.2	97.4(b)	94.0(b)	0.0	0.6	-5.9	-3.5
Workers in Agriculture	4,736.7	4,748.8	111.8(b)	107.5(b)	0.0	0.3	-5.9	-3.9
Workers in Industry and Commerce	3,459.1	3,545.3	81.6(b)	80.2(b)	0.0	2.5	-5.9	-1.7
Workers in Services	2,313.2	2,331.2	54.6(b)	52.7(b)	0.0	0.8	-5.9	-3.4
3. Informal Private Sector Employees								
All Informal Private Sector (2012=100)	149.7	169.5	121.8(a)	135.0(a)	9.5	13.2	1.7	10.8
Agriculture	150.9	172.6	122.8(a)	137.4(a)	10.3	14.3	2.3	11.9
Industry	155.0	173.0	126.1(a)	137.8(a)	10.2	11.6	2.3	9.2
Services	144.1	164.8	117.2(a)	131.2(a)	8.5	14.3	0.7	12.0

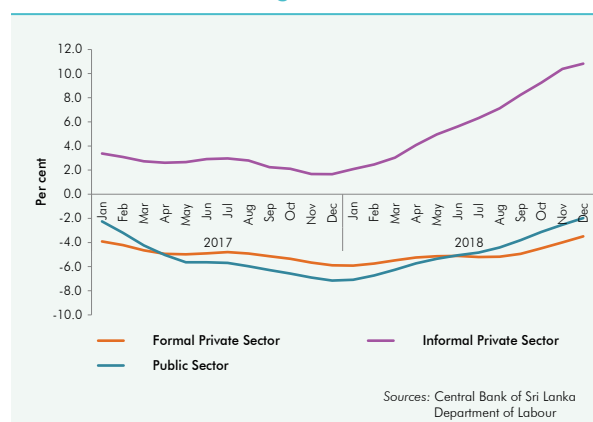
(a) Based on NCPI (2013=100)
 (b) Based on CCPI (2006/07=100)

Sources: Department of Labour
 Central Bank of Sri Lanka

Wages Boards Trades³, increased marginally by 0.6 per cent in 2018. This was mainly due to the increase of minimum wages in printing, textile, tyre and tube manufacturing and garment manufacturing trades in August 2018. Real wages of employees in the formal private sector declined by 3.5 per cent during 2018, compared to the decline of 5.9 per cent recorded in 2017. The Ministry of Labour and Trade Union Relations has initiated discussions, in 2018, to increase minimum wages from the current level of Rs.10,000 per month. Meanwhile, workers in the plantation sector initiated a strike demanding a minimum daily wage of Rs.1,000. However, the basic daily wage of plantation sector employees was increased to Rs.700 from Rs.500, in early 2019.

A growth in both nominal and real wages was observed in the informal private sector, in 2018, as wages in the informal sector are mostly determined by demand and supply conditions in the labour market. Accordingly,

nominal wages of informal private sector employees, as measured by the annual average change in the Informal Private Sector Wage Rate Index (2012=100), increased by 13.2 per cent in 2018, compared to the increase of 9.5 per cent in the previous year. Nominal wages of both agriculture and services sub-sectors increased by 14.3 per cent, while nominal wages in the industry sub-sector increased by 11.6 per cent

 Figure 4.8
 Annual Average Change in
 Real Wage Rate Indices


³ Minimum wages of 21 Wages Boards are considered when compiling the nominal index and the real index of the same is calculated by the CBSL.

in 2018. Real wages of the employees in the informal private sector increased significantly by 10.8 per cent, in 2018, owing to the increase in nominal wages and low level of inflation observed during the year.

4.4 Population, Labour Force and Employment

Population

The mid-year population, in 2018, was estimated at 21.7 million with an annual growth rate of 1.1 per cent, unchanged from the growth rate observed during the past two years. In line with the population growth, the population density⁴ increased to 346 people per square kilometre, in 2018, from 342 people per square kilometre in 2017. The Western province, which is the leading contributor to GDP as per provincial GDP estimates compiled by the CBSL, accounted for the highest share of mid-year population of 28.3 per cent, while Central, Southern and North-Western provinces accounted for 12.7 per cent, 12.2 per cent and 11.7 per cent, respectively, in 2018. Northern province, which had a share of 5.2 per cent, continued to account for the lowest share of the mid-year population. The population is anticipated to grow further in the coming years driven by anticipated positive net migration, caused by the immigrant workforce attached to mega development projects carried out in Sri Lanka.

The population share in the age category of 60 years and above, which accounted to 12.4 per cent⁵ of the mid-year population, is relatively high compared with other South Asian countries. This is also a relatively large figure for a developing country. Low mortality rates and international labour migration trends have caused this structural shift in the age composition over the years. The ageing population phenomenon

⁴ Number of people per square kilometre of land

⁵ Based on the Census of Population and Housing 2012, DCS

Table 4.6
District-wise Population and Density (a) (b)

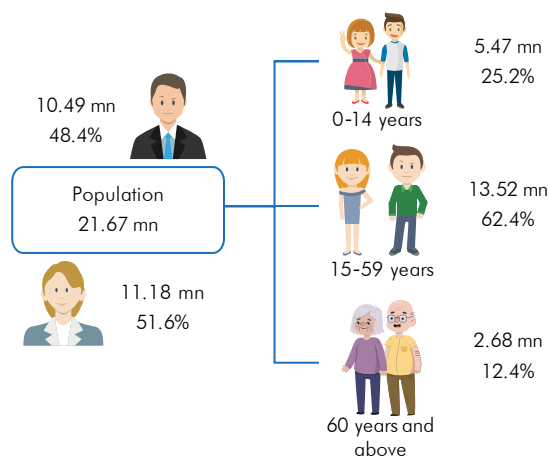
District	2017		2018	
	Population '000 Persons	Density	Population '000 Persons	Density
Colombo	2,419	3,578	2,439	3,608
Gampaha	2,391	1,783	2,409	1,796
Kalutara	1,271	806	1,281	813
Kandy	1,452	757	1,468	766
Matale	514	263	519	266
Nuwara Eliya	756	443	763	447
Galle	1,113	688	1,124	695
Matara	851	670	858	676
Hambantota	647	259	655	262
Jaffna	608	654	613	660
Mannar	107	57	109	58
Vavuniya	184	99	187	100
Mullaitivu	96	40	96	40
Kilinochchi	124	103	126	105
Batticaloa	560	215	570	218
Ampara	705	167	719	170
Trincomalee	412	163	421	166
Kurunegala	1,694	366	1,711	370
Puttalam	814	282	825	286
Anuradhapura	918	138	930	140
Polonnaruwa	431	140	436	142
Badulla	864	306	873	309
Moneragala	485	88	491	89
Ratnapura	1,151	356	1,163	359
Kegalle	877	520	884	525
Total	21,444	342	21,670	346

(a) Provisional

Source: Registrar General's Department

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

Figure 4.9
Mid-year Population - 2018 (a)



(a) Provisional

Source: Registrar General's Department

poses further challenges to the economic growth of Sri Lanka in the form of low productivity, low labour force participation rate, low consumption rates, low savings, increase in elderly dependency ratio and increase in public expenditure in terms of social welfare and healthcare. Therefore, policies related to phased retirement, increasing the retirement age and upskilling should be considered for implementation in order to engage the population in economic activity for longer.

Labour Force

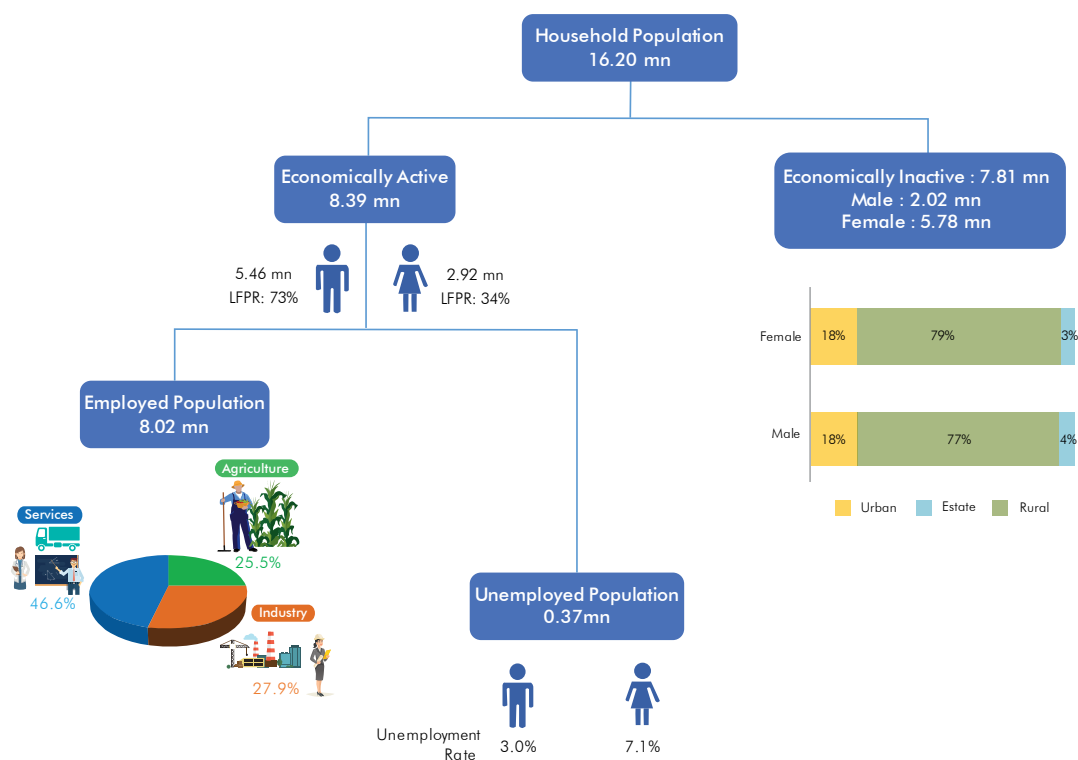
In contrast to the trend observed in the recent past, the labour force, which is the economically active population⁶ aged 15 years and above, declined by 2.1 per cent to 8.388 million in 2018, from 8.567 million recorded in 2017. This decline in the labour force was due to the reduction

in female labour force by 6.7 per cent in 2018 compared to the previous year. The decline in the female labour force was prominent in the rural sector where 78.7 per cent of the female labour force is concentrated. Along with the fall in the labour force, the employed population declined by 2.4 per cent to 8.015 million in 2018, from 8.208 million recorded in 2017, while the unemployed population increased by 3.9 per cent in 2018. Meanwhile, an increase in economic inactivity was prominent during 2018 mainly due to the increase in economically inactive population by 8.4 per cent in the rural sector. As the household population, which is the total of economically active and economically inactive persons, expanded by 2.2 per cent in 2018, the Labour Force Participation Rate (LFPR)⁷ decreased to 51.8 per cent from 54.1 per cent in 2017.

⁶ Economically active population consists persons who are employed or unemployed during the reference period of the Quarterly Labour Force Survey conducted by the DCS.

⁷ Labour Force Participation Rate refers to the ratio of the labour force to the household population aged 15 years and above.

Figure 4.10
Labour Market Snapshot - 2018 (a)



(a) Provisional

Source: Department of Census and Statistics

Table 4.7
Household Population, Labour Force and Labour Force Participation (a) (b)

Item	2017	2018 (c)				
		Q1	Q2	Q3	Q4	Annual
Household Population '000 Persons	15,844	16,034	16,348	16,177	16,226	16,196
Labour Force '000 Persons	8,567	8,333	8,352	8,388	8,478	8,388
Employed	8,208	7,961	7,970	8,041	8,088	8,015
Unemployed	359	372	382	347	389	373
Labour Force Participation Rate (d)	54.1	52.0	51.1	51.8	52.2	51.8
Male	74.5	73.4	72.5	72.7	73.2	73.0
Female	36.6	33.5	32.5	34.0	34.3	33.6

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

Source: Department of Census and Statistics

4

The gender gap in labour force participation widened during 2018, as the female LFPR decreased to 33.6 per cent from 36.6 per cent recorded in 2017. Sri Lanka still lags behind in the female participation in the workforce, despite the increasing number of educationally and professionally qualified females. As such, a substantial proportion of working age females are not economically contributing to the national economy. A number of factors, such as issues in marketable skills, narrowed choices in the labour market, gender discriminations related to employment opportunities, wages and promotions, harassment at work and public transport services, unfavourable social norms, unavailability of affordable child care facilities and the multiple social roles and responsibilities expected to be performed by Sri Lankan females, hinder female participation in the workforce. Therefore, national level policies on gender equality and non-discrimination, including zero tolerance for sexual harassment, supportive working arrangements, such as flexible working hours and work from home and support facilities such as affordable and high quality child and elder care, and safe transportation, are essential to

Figure 4.11
Trends in Labour Force and Unemployment (2013 - 2018)



provide a conducive environment for females to be more economically active. These initiatives will have a significant impact on increasing the LFPR as a whole, which would, in turn, contribute to the country's economic growth.

Employment

During 2018, employed population decreased by 2.4 per cent to 8.015 million from 8.208 million recorded in 2017. The majority of the employed population continued to represent the services sector with a share of 46.6 per cent of the total employment in 2018. The industry sector contributed a share of 27.9 per cent of the

Figure 4.12
Status of Employment - 2018

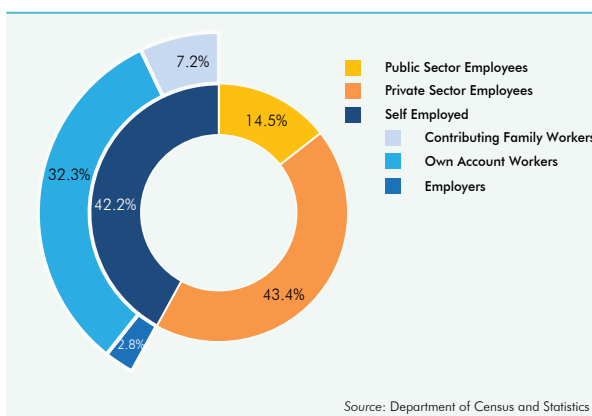


Table 4.8
 Employment by Economic Activity (a) (b) (c)

Sector	'000 Persons						Percentage of Total Employment	
	2017	2018 (d)					2017	2018 (d)
		Q1	Q2	Q3	Q4	Annual		
Agriculture	2,140	2,139	1,928	2,035	2,073	2,044	26.1	25.5
Industry	2,331	2,224	2,190	2,306	2,237	2,239	28.4	27.9
Mining and Quarrying	63	55	78	63	53	62	0.8	0.8
Manufacturing	1,581	1,472	1,363	1,529	1,492	1,464	19.3	18.3
Construction, Electricity, Gas, Steam and Air Conditioning Supply, Water Supply, Sewerage, Waste Management and Remediation Activities	688	698	748	715	692	713	8.4	8.9
Services	3,737	3,598	3,852	3,700	3,779	3,732	45.5	46.6
Wholesale and Retail Trade, Repair of Motor Vehicles and Motor Cycles	1,160	1,138	1,131	1,145	1,152	1,141	14.1	14.2
Transport and Storage	513	493	528	488	499	502	6.3	6.3
Accommodation and Food Services Activities	210	216	233	253	250	238	2.6	3.0
Information and Communication	70	52	65	60	43	55	0.9	0.7
Financial and Insurance Activities	160	186	192	162	153	173	1.9	2.2
Professional, Scientific and Technical Activities	70	77	83	88	97	86	0.8	1.1
Administrative and Support Service Activities	152	134	181	169	184	167	1.9	2.1
Public Administration and Defence, Compulsory Social Security	527	457	444	383	454	434	6.4	5.4
Education	377	392	466	408	434	425	4.6	5.3
Human Health and Social Work Activities	149	141	151	150	129	143	1.8	1.8
Other (e)	348	313	376	395	382	366	4.2	4.6
Total employment	8,208	7,961	7,970	8,041	8,088	8,015	100.0	100.0
Percentage of Labour Force	95.8	95.5	95.4	95.9	95.4	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) In July 2016, the Department of Census and Statistics published a re-weighted and revised labour force data series for 2011 onwards.

(d) Provisional

(e) This includes activities of households as employers; real estate; arts, entertainment and recreation; and extra territorial organisations and bodies.

total employment in 2018, while the agriculture sector contribution was 25.5 per cent, compared to 26.1 per cent in the previous year. Accordingly, the share of employed population in the agriculture sector continued to decline in 2018, signalling the structural shift in employment.

As per the Quarterly Labour Force Survey conducted by the DCS, the private sector continued to be the main employment generating sector in Sri Lanka representing the largest share of 43.4 per cent of the total employment in 2018. The self-employed category, which consists of three groups, employers, own account workers and contributing family workers, also represented a large share of 42.2 per cent of the total employment during the year. Accordingly, own account workers,

contributing family workers and employer categories represented shares of 32.3 per cent, 7.2 per cent and 2.8 per cent, respectively. Meanwhile, the public sector represented a share of 14.5 per cent of the total employment in 2018.

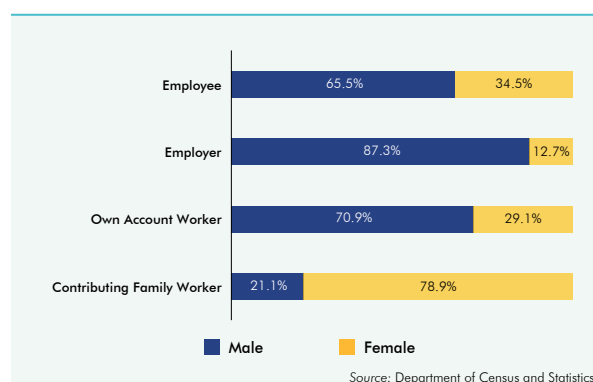
 Figure 4.13
 Distribution of Employment Status by Gender - 2017


Table 4.9
Public Sector Employment

Sector	2016	2017 (a)	2018 (b)	Percentage Change	
				2017/ 2016 (a)	2018/ 2017 (b)
Government (c)	1,146,995	1,152,211	1,161,891	0.5	0.8
Semi Government (d)	242,772	244,514	248,707	0.7	1.7
Public Sector	1,389,767	1,396,725	1,410,598	0.5	1.0

(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

As per the Public-Sector Employment Survey conducted by the Central Bank, total public sector employment was 1.411 million at the end of 2018, compared to 1.397 million in 2017. This includes employees in ministries, departments, district secretariats, divisional secretariats, provincial councils and semi government institutions.

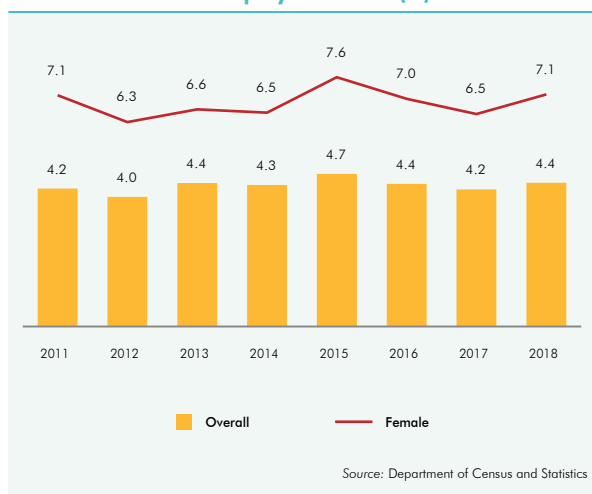
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Unemployment

The unemployment rate increased to 4.4 per cent in 2018, from 4.2 per cent that was recorded in 2017, with the highest unemployment rates being reported in females, youth and educationally qualified categories. A high female unemployment rate along with the low female LFPR remain critical issues that need immediate policy interventions in order to create a level playing field for economically active females. With regard to unemployment among the youth, high unemployment rates of 21.4 per cent and 10.4 per cent were reported from the age categories of 15-24 years and 25-29 years respectively, in 2018. In terms of educational qualifications, an unemployment rate of 9.1 per cent was reported from the GCE A/L and above category in 2018, compared to 8.1 per cent recorded in 2017.

Skill mismatches have resulted in a labour shortage and a need to import labour for selected industries. In addition to skill gaps,

Figure 4.14
Unemployment Rate (%)



there is a large gap observed between the job seekers' expectations and the job requirements, as the younger generations prefer non-routine and cognitive jobs over routine and manual jobs. Further, industries such as the construction industry are perceived to be less attractive for employment among potential job seekers mainly due to the fragmented and temporary nature of the work assignments. Hence, authorities are compelled to import labour mainly from China, India, Nepal and Myanmar to fulfill

Table 4.10
Unemployment Rate (a) (b)

Category	2017	2018 (c)				
		Q1	Q2	Q3	Q4	Annual
All	4.2	4.5	4.6	4.1	4.6	4.4
By Gender						
Male	2.9	2.9	3.1	2.8	3.2	3.0
Female	6.5	7.4	7.4	6.6	7.1	7.1
By Educational Level						
Grade 5 and below
Grade 6-10	2.8	3.0	3.5	2.4	2.5	2.9
GCE (O/L)	5.9	5.3	4.8	4.8	6.1	5.2
GCE (A/L) and above	8.1	9.5	8.9	9.5	8.7	9.1
By Age Group (Years)						
15-19	21.0	23.7	28.5	22.5	31.2	26.5
20-24	17.8	21.2	20.9	18.7	19.6	20.1
25-29	9.5	10.7	10.8	10.6	9.5	10.4
30-39	2.7	3.3	3.3	2.7	2.6	3.0
40 and above	0.9	0.7	0.6	0.6	1.0	0.7

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

Source: Department of Census and Statistics

the growing labour requirement in the rapidly expanding construction industry. However, long-term policy measures, such as automating manufacturing processes as a means of moving away from labour-intensive manufacturing, and upskilling and reskilling the labour force could be implemented instead of importing low-cost labour.

As human capital has been identified as one of the key enablers of the economic development of a country, the efficient utilisation of Sri Lanka's large untapped talent is essential. Hence, the government could facilitate public-private partnerships to upskill or reskill the existing labour force, while ensuring school dropouts are attracted towards government funded or donor funded skill development programmes to build a sustainable supply of skilled labour. Such skill development programmes would lessen the skill gaps and minimise the chances of youth performing less productive jobs. Moreover, the government has taken initiatives to increase the total years of compulsory education to 13 years, with the main objective of providing technical, vocational and social skills to those who are not pursuing studies after GCE O/L.

Foreign Employment

The total number of departures for foreign employment declined marginally, despite the increase in female departures. Accordingly, male departures for foreign employment declined by 6.8 per cent to 129,774 in 2018 from 139,268 in 2017. In contrast, female departures increased by 12.3 per cent to 81,685 in 2018 from 72,724 in 2017, underpinned by the increase in female departures under the housemaid category, particularly in the age group of 35-44 years. Even though the unskilled departures declined by

15.3 per cent in 2018, unskilled and housemaid categories still represent 55.2 per cent share of the total departures for foreign employment. As many underage women are sent for employment overseas by agencies through forged or fraudulent documents, the government is considering the introduction of new legislation to regulate foreign employment and control human trafficking.

Sri Lanka could tap the growing market of semi-skilled and skilled labour in various disciplines while reducing the unskilled departures. Disciplines such as nursing, medicine, IT, finance, accounting, management, engineering and industries such as tourism, sea and air transportation, high-tech manufacturing, construction, health care could be considered for providing formal training to Sri Lankans seeking foreign employment. To have an edge over countries, such as the Philippines, Bangladesh, India, Pakistan, China and other Asian countries, Sri Lanka has to take necessary measures to develop vocational and professional training systems in line with international standards, to strengthen the skilled labour supply to meet the demands of the international market.

Figure 4.15
Departures for Foreign Employment by Skills

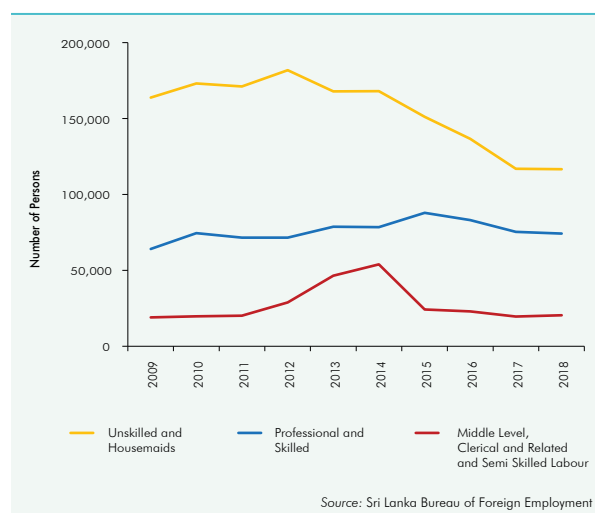


Table 4.11
Departures for Foreign Employment

Foreign Employment	2016		2017 (a)		2018 (b)	
	Number	% Share	Number	% Share	Number	% Share
Total Placements	242,816	100.0	211,992	100.0	211,459	100.0
By Source						
Licensed Agents	87,982	36.2	68,319	32.2	66,924	31.6
Other	154,834	63.8	143,673	67.8	144,535	68.4
By Gender						
Male	160,306	66.0	139,268	65.7	129,774	61.4
Female	82,510	34.0	72,724	34.3	81,685	38.6
By Manpower Category						
Professional	6,578	2.7	6,379	3.0	7,210	3.4
Middle Level	8,234	3.4	7,127	3.4	7,748	3.7
Clerical & Related	10,862	4.5	9,271	4.4	10,021	4.7
Skilled Labour	76,545	31.5	68,980	32.5	67,053	31.7
Semi-skilled Labour	3,926	1.6	3,297	1.6	2,770	1.3
Unskilled Labour	71,656	29.5	61,054	28.8	51,719	24.5
Housemaid	65,015	26.8	55,884	26.4	64,938	30.7

(a) Revised
(b) Provisional

Source: Sri Lanka Bureau of Foreign Employment

4 The Middle East region continued to be the main foreign employment destination for Sri Lanka accounting for around 88.2 per cent of the total departures. About 97.4 per cent of housemaids and 78.0 per cent of unskilled workers were concentrated in the Middle East countries such as Saudi Arabia, Qatar, Kuwait and the UAE. In terms of gender wise departures, 85.0 per cent of male departures and 93.3 per cent of female departures were concentrated in the Middle East region.

Foreign employment has a great impact on the Sri Lankan economy due to private worker remittances being one of the main sources of foreign exchange earnings and due to the significant role played in reducing the unemployment and generating income that reduces poverty. However, the over dependence on private remittances poses threats to the

Sri Lankan economy due to possible variability in labour demand in foreign labour markets resulting from economic recessions, political unrests and conflicts, policy changes restricting migrant labour, automation and disruptive technology and competition among labour exporting countries. In addition, the social problems and social costs associated with migration of females, human right violations such as exploitation, non-payment or under-payment and physical abuse, and the labour shortages in several industries in Sri Lanka present a strong case for reducing the over dependence on worker remittances for improving foreign exchange earnings. Accordingly, the strategic direction for foreign employment requires a focus on departures in the skilled and semi-skilled categories, while reducing the total departures for foreign employment especially in the housemaids and unskilled categories.

Table 4.12
Foreign Employment Departures by Destination

Country	2017 (a)		2018 (b)		Change (b)	
	Number	% Share	Number	% Share	Number	Per cent
Saudi Arabia	37,745	17.8	35,866	17.0	-1,879	-5.0
Qatar	56,637	26.7	50,774	24.0	-5,863	-10.4
Kuwait	37,410	17.6	46,951	22.2	9,541	25.5
U A E	36,667	17.3	32,836	15.5	-3,831	-10.4
Other	43,533	20.5	45,032	21.3	1,499	3.4
Total	211,992	100.0	211,459	100.0	-533	-0.3

(a) Revised
(b) Provisional

Source: Sri Lanka Bureau of Foreign Employment

The Sri Lanka Bureau of Foreign Employment (SLBFE) continued to implement measures to regulate the migration process, and to protect and empower migrants and their families. Accordingly, to ensure trustworthy foreign employment for Sri Lankan migrant workers, the SLBFE conducted 155 raids on illegal recruitment activities and filed 213 court cases against illegal agencies and licensed agencies that violated the law, in 2018. As welfare and protection measures, the SLBFE paid Rs. 138.25 million to an insurance company on behalf of 211,093 migrant workers, incurred a cost of Rs. 49.27 million in awarding scholarships to 2,019 children of migrant workers, repatriated a total of 25 migrant workers due to the problems encountered during their stay abroad, utilising Rs.0.97 million of the Workers' Welfare Fund and the insurance scheme and settled 3,754 complaints received from migrant workers regarding various problems. Further, the SLBFE introduced the 'National Vocational Qualification Level 3' as a mandatory requirement for pre-departure training of Sri Lankans leaving for employment in the Middle Eastern, European and East Asian countries, such as Singapore, Cyprus, Hong Kong and Maldives. In addition, further measures have been taken to establish

Migrant Resource Centres in each province with the view to improving the operations of the SLBFE island-wide in facilitating the migrant workers.

Labour Relations and Labour Market Reforms

Labour relations in the private sector deteriorated during 2018, since the number of strikes increased significantly by 48.5 per cent and the workers involved increased by 14.4 per cent. However, the number of man days lost due to strikes declined by 14.4 per cent during the year under review. Accordingly, 12,485 workers were involved in 49 strikes, resulting in a loss of 51,423 man-days, in 2018. The increase in the number of strikes and workers involved were mainly due to the significant increase in the number of strikes and workers involved in the plantation sector. In contrast, the strikes reported in semi government institutions and other private institutions only increased marginally, by 4.8 per cent, while the number of workers involved and man days lost declined by 34.2 per cent and 66.5 per cent, respectively. According to the publicly available data, there were several strikes carried out by the workers of public sector institutions, particularly in health, education, postal and transportation sectors.

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Table 4.13
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
2015	31	10,427	70,697	20	4,488	11,597	51	14,915	82,294
2016	26	11,185	85,637	15	10,167	18,690	41	21,352	104,327
2017 (b)	12	1,885	5,643	21	9,027	54,436	33	10,912	60,079
1st Quarter	3	343	1,011	9	3,344	23,258	12	3,687	24,269
2nd Quarter	6	767	2,632	6	2,401	6,452	12	3,168	9,084
3rd Quarter	1	335	1,340	5	2,682	22,926	6	3,017	24,266
4th Quarter	2	440	660	1	600	1,800	3	1,040	2,460
2018 (c)	27	6,545	33,212	22	5,940	18,211	49	12,485	51,423
1st Quarter	6	886	6,152	7	1,706	5,791	13	2,592	11,943
2nd Quarter	6	1,073	6,606	2	690	4,170	8	1,763	10,776
3rd Quarter	7	703	3,759	8	1,010	3,181	15	1,713	6,940
4th Quarter	8	3,883	16,695	5	2,534	5,069	13	6,417	21,764

(a) Includes semi government institutions and other private institutions

(b) Revised

(c) Provisional

Source: Department of Labour

Several measures were taken by the Ministry of Labour and Trade Union Relations, during 2018, to improve workplace cooperation and industrial harmony, together with the introduction of several amendments and legal provisions. Two amendments were brought into the Maternity Benefits Ordinance No. 32 of 1939 and the Shop and Office Employees Act No. 19 of 1954 to extend maternity benefits for private sector female employees. Accordingly, irrespective of the number of children, 84 working days maternity leave with pay shall be granted. Additionally, legal provisions to provide feeding hours for female employees were also introduced. The administrative relaxation to practice a five day work week for private sector manufacturing industries was further extended in 2018. A committee was appointed to revise the national minimum wage in consultation with the National Labour Advisory Council (NLAC). Further, cabinet approval was granted to introduce a 'Single Employment Law' to address the issues related to anomalies and discrepancies in existing labour laws with regard to terms and conditions of employment in the private sector. Legal provisions, to ensure full and productive employment without any discrimination, to prevent sexual harassments in the work place and to introduce flexible working arrangements are also to be included in the proposed act. Further, cabinet approval was granted to cover domestic workers through labour laws in order to protect their rights. The ministry is also in the process of taking necessary measures for the prevention and elimination of forced labour. Furthermore, the list of hazardous occupations was revised and is expected to be submitted for cabinet approval. The Social Dialogue Unit of the Department of Labour conducted awareness programmes, workshops and an all-island industrial level competition to improve workplace cooperation and industrial peace in the

private sector. Further, the Department of Labour initiated a 'Social Dialogue Platform' with the view of reducing workplace disputes while increasing productivity. In addition, actions were taken to strengthen the dispute settlement system in order to enhance industrial peace and harmony.

Labour Productivity

Labour productivity, measured in terms of Gross Value Added (GVA) (in 2010 prices) per hour worked, increased by 8.9 per cent to Rs.500.56 per hour worked in the first three quarters of 2018, from Rs.459.85 per hour worked in the corresponding period of 2017. This increase was mainly due to the decline in the employed population, in addition to the incremental increase in GVA. Accordingly, the labour productivity in all three sectors, agriculture, industry and services increased by 8.89 per cent, 10.43 per cent and 8.18 per cent, respectively, during the first three quarters of 2018. However, labour productivity in the agriculture sector was significantly low at Rs. 182.19 per hour worked for the first three quarters of 2018 as it still employs slightly more than one fourth of the total employed population. Labour productivity in industry and services sectors stood at Rs. 528.17 and Rs.613.91 per hour worked, respectively, in the first three quarters of 2018.

Table 4.14
Labour Productivity by Major Economic Sectors (a)

Item	2017 (b)	2017 (Q1-Q3) (b)	2018 (Q1-Q3)
Gross Value Added at Constant (2010) Prices, Rs. mn	8,449,194	6,226,563	6,483,935
Agriculture	642,366	463,578	486,068
Industry	2,495,721	1,860,815	1,906,916
Services	5,311,107	3,902,170	4,090,950
Labour Productivity, Rs. per Hour Worked	464.35	459.85	500.56
Agriculture	169.06	167.32	182.19
Industry	477.35	478.29	528.17
Services	579.33	567.49	613.91

(a) Provisional
(b) Revised

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

Improving labour productivity is important for a country, as it is directly linked to the improvement in standards of living in the form of improved consumption, through production of more goods and services with the same amount of input. The subsidies provided have hampered the productivity improvements in the agriculture sector, with a large population trapped in low productivity/ low income livelihood. Therefore, in order to increase labour productivity in the agriculture sector, focus should be on technological adaption and advances, reviewing land use and crop mix and implementation of more productive practices. In addition, there should be a reallocation of the labour concentrated in

the agriculture sector towards the industry and services sectors to stimulate the economic growth, to address labour shortages and to increase overall labour productivity. The services sector has proven to have the highest growth potential in the economy. Overall, policies should be focused on moving away from low productivity towards higher productivity agriculture; from traditional services to modern services, such as Information and Communication Technology and Business Process Management (ICT-BPM) and professional services; and from manual or low technology manufacturing to high technology manufacturing in order to accelerate growth and generate higher value employment.

