

Chapter 4

PRICES, WAGES AND EMPLOYMENT

4.1 Overview

- The rate of price increases began to decelerate in 2005, from that witnessed since early 2004, benefiting from improvements in domestic production and tightening of monetary policy, with stability in the exchange rate. The year 2005 saw annual average inflation revert to a declining trend.¹ However, the year ended at a higher rate than in the previous year, at 11.6 per cent on the Colombo Consumers Price Index (CCPI) and at 10.6 per cent on the countrywide Sri Lanka Consumers' Price Index (SLCPI), compared with 7.6 per cent and 7.9 per cent, respectively, at end 2004. The point-to-point inflation declined throughout the year on all price indices.² However, point-to-point increases were significantly higher during the first half of 2005 compared to the first half of 2004. Consequently, the annual average inflation rose in the first three quarters before declining thereafter. Measures of inflation in different regions of the country also showed similar patterns.
- Domestic as well as external demand and supply factors impacted on the observed price changes at both wholesale and retail market levels. On the supply side, while production of goods and services increased, higher costs of production and transportation and upward adjustments in administered prices

1 The annual average inflation measures the average change in the general price level, as measured by an index, between any 12-month period and the preceding 12-month period.

2 The point-to-point inflation measures the change in the value of the price index in a given month over the corresponding month of the previous year. The direction of annual average inflation in a given month is determined by the point-to-point inflation in that month. If the point to point inflation in any month is higher than the corresponding inflation in the same month of the previous year, the annual average inflation will rise in that month compared to the previous month and vice versa.

of inputs such as fuel contributed to price increases. The adverse effects of the drought that occurred in the previous year continued to exert pressure on prices of some domestically produced agricultural commodities during the first half of the year. The impact of the tsunami that occurred on 26 December 2004 also affected prices adversely. However, expansion in agricultural production, particularly of paddy, reduced the pressure on prices after the first quarter of the year. The pressure on prices from the demand side was reflected in the relatively high expansion of monetary and credit aggregates, particularly consumption credit, throughout the year, while tightening the monetary policy stance helped to contain inflationary expectations during 2005.

- Price movements of imported consumer goods were mixed. Most major consumer imports, such as rice, sugar and milk powder, experienced price increases in US dollar terms. Among major intermediate imports, international prices of crude oil were volatile at relatively higher levels throughout the year due to a continuous increase in demand and supply side disturbances. However, the full impact of such increases was not passed on to domestic prices. In contrast, wheat grain registered lower international prices compared with 2004. Meanwhile, marginal variations during most of the year of the rupee against the US dollar, the main transaction currency, kept the exchange rate impact on import prices low.
- Efforts to reduce the impact of the rising cost of imports through administrative measures helped keep price pressure low to a certain extent. Removal of the value added tax (VAT) on a few selected key items (diesel, Liquefied

Chart 4.1
Trends in Price Indices

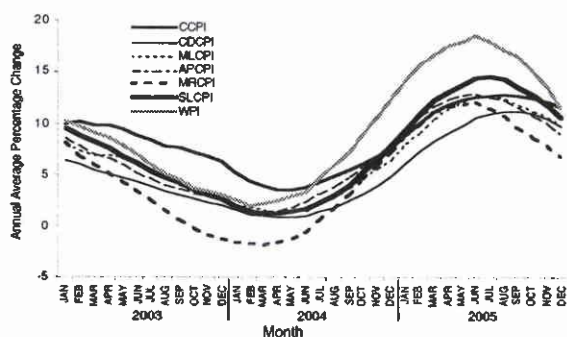


Chart 4.2
Point-to-Point Changes in Price Indices

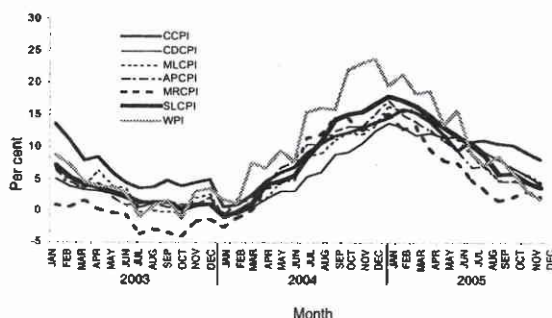


Table 4.1
Changes in Price Indices

Index	Average Index			Point-to-Point Percentage Change		Annual Average Percentage Change	
	2003	2004	2005	Dec-2004/Dec-2003	Dec-2005/Dec-2004	2004/2003	2005/2004
CCPI	3,377.0	3,632.8	4,055.5	13.8	8.0	7.6	11.6
CDCPI	141.4	148.5	163.1	12.6	4.3	5.0	9.8
APCPI	146.6	158.5	172.8	15.3	3.4	8.1	9.0
MLCPI	142.1	151.6	166.6	13.5	4.6	6.7	9.9
MRCPI	137.3	147.2	157.2	13.6	2.1	7.2	6.8
SLCPI	158.4	170.9	189.1	16.8	3.6	7.9	10.6
WPI	1,679.1	1,889.0	2,105.9	23.9	1.7	12.5	11.5
GDP Deflator	168.0	183.6	201.8	-	-	9.3	9.9

Source: Central Bank of Sri Lanka

Petroleum Gas (LPG) and milk powder), together with limited adjustments to domestic prices of petroleum products at below the rising costs of production, provided temporary relief to consumers by containing their prices to a certain extent.

- Public sector wages increased in real terms in 2005 due to wage revisions in late 2004, while private sector wages contracted in real terms.** The nominal wage increases for non-executive categories in the public sector, when adjusted for inflation, ranged between 14 and 18 per cent. These wage adjustments had a contagion effect on wage increases in the private sector, through the new Budgetary Relief Allowance of Workers Act (BRAWA). Wages in the informal private sector and minimum wages in the formal private sector rose in nominal terms, though such increases were not sufficient to compensate for inflation. These wage increases could also have exerted some pressure on consumer prices through increased demand.
- The unemployment rate declined to 7.7 per cent by August 2005 from 8.3 per cent in 2004.** The expansion in economic activities and implementation of the graduate employment programme of the government contributed to reduce unemployment. The post-tsunami recovery in the hotels, fishing and small and medium industry sub sectors in affected coastal areas and construction sector growth, also partly due to tsunami reconstruction work, helped generate employment opportunities throughout 2005.
- The shifts in employment across economic sectors from 2004 to 2005 indicated that labour mobility had improved.** The employment share in agriculture had declined despite expansion in agricultural production. Agricultural labour was absorbed by the construction and manufacturing sectors, among others, and linked to expansion of economic activities in those sectors.
- Foreign employment placements increased by 8.2 per cent in 2005 compared to 2004.** The share of males in total foreign employment placements rose compared with the previous year. Meanwhile, the share of housemaids among manpower categories, remained high. The demand for labour in 2005 was mainly from Qatar, Saudi Arabia and the UAE.
- Certain labour laws were amended and enacted as new acts in Parliament and the coverage of collective agreements in the plantation sector was extended in 2005 towards facilitating the smooth functioning of the labour market.** The number of strikes in the plantation sector declined significantly in 2005 compared to 2004, probably indicating improved relationships between employers and employees arising from collective bargaining under wage agreements.

4.2 Prices

Consumer Price Indices (CPIs)

- All CPIs recorded annual average inflation rates in a range of around 7 to 12 per cent by the end of the year, compared to 5 to 8 per cent in the previous year.** Inflation rates rose continuously from early 2004 until mid-2005 and declined gradually thereafter, indicating the easing of inflation towards the end of the year. This was indicated by the point-to-point changes, which began falling during the first quarter and continued on a downward trend over the remainder of the year. However, these changes were higher in the first half of the year compared to the corresponding changes in the previous year. The situation changed during the second half of the year, especially since the third quarter for most CPIs, with lower point-to-point changes than the previous year indicating the easing of price pressure towards the year-end.
- Price movements of both domestic goods and imports influenced CPI movements.** In the CCPI, domestically produced goods represent about 78 per cent, while the balance of about 22 per cent is represented by imports. In both groups food items dominate. The compositions of other CPIs are similar. Accordingly, the observed movements of CPIs were mainly driven by changes in food prices. The point-to-point increases of the food sub indices followed a pattern similar to that of the respective overall CPIs during the year. Meanwhile, the persistent increase of prices in the fuel and light sub group with shares of around 4 to 6 per cent of the total weights across all CPIs contributed to the movements in the point-to-point changes as well as the annual average inflation on all CPIs.

- **The increasing trend in the annual average inflation of the Colombo Consumers' Price Index (CCPI), the official measure of the cost of living, continued until August 2005, to reach 12.8 per cent, and began to decline slowly thereafter, to reach 11.6 per cent by the end of the year.** The food sub index, which represents the highest share of around 62 per cent of the CCPI basket, followed a similar pattern, whereas the other sub indices of clothing, fuel and light and miscellaneous items showed increasing trends throughout the year. Annual average inflation in the fuel and light sub index, which measures the movement of price levels of kerosene, firewood, matches and electricity, with a weight of 4.3 per cent in the CCPI basket, was 13.5 per cent by the end of the year. Among the items in the miscellaneous items sub group, the upward price revisions of transport related goods and services, increases in tobacco and liquor prices and tuition fees and stationery prices contributed to the annual average inflation of the miscellaneous items sub index which reached 10 per cent by December from 6.5 per cent in January 2005. The movement of this sub index too, impacted on the movements of the CCPI, as it represents the second highest share of around 18 per cent in the CCPI basket.
- **The Sri Lanka Consumers' Price Index (SLCPI) showed a similar pattern, but the intensities in changes were higher in comparison to the CCPI.** The SLCPI has a more recent consumption basket (base year 1995/97), as well as a more representative reference population of the lowest 80 per cent of expenditure groups in the entire country excluding only the Northern and Eastern provinces. The rate of annual average inflation continued to rise to reach a peak of 14.5 per cent in July and began to fall thereafter, to reach 10.6 per cent by the end of the year. These compare with changes in rates of inflation between 1.2 per cent and 7.9 per cent in the previous year. The main driving force was the food, beverages and tobacco sub index with a share of around 71 per cent in the SLCPI basket, for which the annual average change varied between 10.1 and 16.8 per cent in 2005 compared to a range of -1 to 8.6 per cent in the previous year. The continuous increase in crude oil prices in the international market and the consequent upward revision of domestic fuel prices led to an increase in price levels in the transport and housing, water, electricity, gas and other fuels sub groups. The annual average change in the transport sub index rose to 17.0 per cent by the end of the year, compared to 10.8 per cent in the previous year. The rate of inflation in the housing, water, electricity, gas and other fuels sub index, having a weight of around 13 per cent, was 14.6 per cent in 2005 compared to 5.8 per cent in 2004. Price increases of construction materials and the upward revision of the unit price of water, in addition to the fuel and gas price increases, contributed to the higher inflation in the sub index. Price increases of construction materials were evident

from the increased values in the All-Construction Index compiled by the Institute for Construction, Training and Development (ICTAD). Among the other sub indices in the SLCPI, the health, education and miscellaneous goods and services sub indices showed increasing trends in inflation during the year, while the clothing and footwear sub index, with a relative share of 4 per cent, increased by less than 4 per cent compared to the increase of around 5 per cent in the previous year. Although the sub index for leisure, entertainment and culture increased significantly by 17.5 per cent in 2005, the impact on overall inflation was marginal, since this group has a weight of less than 1 per cent in the SLCPI basket.

Regional Price Indices

- **All regional price indices followed the observed general behaviour of annual average inflation as measured by the CCPI and SLCPI.** In addition to the CCPI and SLCPI, the Central Bank of Sri Lanka measures regional inflation through the movements of CPIs it compiles for the districts of Anuradhapura (APCPI), Colombo (CDCPI), Matale (MLCPI), and Matara (MRCPI). The point-to-point changes differed marginally among districts compared to the CCPI, reflecting the differences in weight structures, which represent the differences in consumption patterns among households in those districts, and variations in price movements among different regions of the country. The point-to-point changes indicated similar trends and were significantly higher in the first six months and much lower in the second six months, compared to the corresponding months of the previous year. However, all four district CPIs recorded lower inflation than the SLCPI and CCPI for most of the year. They registered annual average inflation rates below 10 per cent by the end of the year, while the inflation in the Colombo Municipality area (CCPI) and the country as a whole (SLCPI) recorded inflation rates greater than 10 per cent. The lowest point-to-point as well as annual average increase was recorded by the MRCPI, with declines in the monthly changes for seven months of the year. The recovery of the agriculture sector, especially the low prices of rice which has a high share in the MRCPI basket, would have contributed to the lower inflation registered in this district.
- **Although the inflation rates in Anuradhapura, Matale and Matara districts were higher compared to the Colombo district by the end of the previous year, the rates had converged to a greater extent by 2005, with Anuradhapura and Matara districts recording even lower inflation rates than Colombo.** The greater availability of the main agricultural products at relatively lower prices in those producing districts, unlike in the Colombo district, would have contributed to the observed faster decline in inflation in these three districts during the year. Among such items, the drop in paddy price was significant. The low paddy production and higher dependency

on rice imports of about 221,663 MTs and the added transport costs for distribution out of Colombo influenced the increase in the regional CPIs and SLCPI compared to the CDCPI in the previous year. In contrast, the increased paddy production in these regions, and consequent low price levels recorded for rice, which has a significant share in the regional CPI baskets, contributed to the above developments in 2005.

Wholesale Price Index (WPI)

- Movements of the WPI, both in 2004 and 2005, preceded the price developments at retail level.** The movements in the CPIs show that the WPI acts as a leading indicator for future retail price changes. For instance, the behaviour of the WPI, which began to increase somewhat earlier in February 2004, and continued rising until June 2005, is reflected later in the increasing trend of annual average inflation as measured by the CPIs, that commenced in the second quarter of 2004 and continued until August 2005. The annual average inflation on the food sub index, which represents around 68 per cent of the WPI basket, varied within a range of about 10 per cent to 22 per cent and followed a similar trend to the overall index. The point-to-point change in the WPI was higher than in all CPIs at the beginning of the year, but fell sharply to 2 per cent by end of the year, which confirmed the movements of retail prices reflected in all the CPIs.
- Price increases for certain key intermediate and investment goods influenced the behaviour of the corresponding sub-indices.** The petroleum products sub index that has the second highest weight of around 6 per cent, recorded an inflation rate of 23 per cent in 2005, compared to the inflation of 15 per cent for 2004, consequent to the increase in crude oil prices in the international market and subsequent adjustments in domestic fuel prices. The increase in prices of most building materials, particularly cement, bricks, sheet glass and roof tiles, was evident in the movements of the non-metallic products sub index. The point-to-point increase in the sub index reached a peak of about 69 per cent in June 2005 compared to the 6 per cent increase in the same month of the previous year. Every month of 2005 recorded a more than 30 per cent increase in this sub-index on point-to-point basis. Accordingly, the annual average increase in the non-metallic products sub index reached 45 per cent in 2005, in comparison to 16 per cent recorded for 2004. In addition to the higher import costs and input costs of domestic production, the higher transport charges for building materials too contributed to this increase. Prices of textiles and footwear remained fairly stable at the previous year's level, as indicated by the movements of the WPI sub index, and a similar change was observed in the respective CPI sub indices as well. Annual inflation on the transport equipment sub index was about 14 per cent, compared to around 6 per cent in the previous year. The combined effects of price developments in transport equipment and petroleum products were evident in the increase of the transport sub indices on all CPIs.
- Under the classification on the basis of the origin of goods, the import and export group sub-indices registered higher increases than the domestic group.** The domestic group, representing a share greater than 50 per cent and dominated by food items, registered an annual average price increase of around 7 per cent, which was lower than the 10 per cent increase in the previous year. This indicated the possibility of a slight reduction in the retail price level of domestic goods in the early months of 2006, than experienced in the corresponding months of 2005. The imports sub group, with a weight of around 27 per cent in the WPI basket, registered a higher price increase of around 18 per cent compared to 10 per cent in the previous year. The higher international prices of intermediate imports such as petroleum products, LPG and fertiliser, were the main contributory factors to the increase in the imports sub index. The exports sub group, having a weight of 22 per cent in the WPI basket, recorded an annual average inflation of around 12 per cent in 2005. The increase in prices for the export group was mainly driven by the attractive prices for tea, with a weight of about 11 per cent in the WPI basket. The export prices of mid-grown and low-grown teas increased by about 3 per cent and 5 per cent, respectively over the year due to their high quality. Price increases for natural rubber by about 11 per cent in the international market, as a result of high international prices for synthetic rubber, too contributed to the annual average inflation in the export group sub index.
- Under the classification of usage, all three sub-indices recorded increases, while the investment goods sub-index recorded the highest rate.** The consumer goods sub index, dominated by food items and having a share of more than 75 per cent in the WPI expenditure basket, rose by about 10 per cent over the year. The 12 month average increases were significantly higher for months in the first half of the year. In contrast, declines were recorded in the corresponding months of the first half 2004. This was mainly due to the increases in producer prices for most food items that commenced in the second half of the previous year and continued during the first few months of 2005, as well. The investment goods sub index too recorded a significantly high rate of inflation of about 36 per cent. Significant price increases of building construction materials within a range of 4-58 per cent, compared to the 1-8 per cent increase in 2004, were mainly responsible for this increase. There was an increase of around 11 per cent for intermediate goods following an 18 per cent increase in 2004.

GDP Deflator

- The GDP deflator, which measures the price changes of all goods produced in the economy, increased by 9.9 per cent compared to the 9.3 per cent increase in 2004.** The services sector registered a significant increase of 10 per cent compared

to 8.8 per cent in the previous year. All four sub indices under the services sector increased though at different rates within a range of 5.3 per cent to 23.4 per cent during the year, in the wake of higher utility, transport and other input costs. The increase recorded for the industry sector (9.0 per cent) was lower than in the previous year (11.0 per cent). While three sub indices under the industry sector recorded moderate increases in 2005, the significant increase of 14.1 per cent in the construction sub index was the major contributory factor to the overall increase, which was evident in the higher import prices of building materials as well as the increase in the non-metallic products sub index in the WPI. The agriculture sector registered a 10.9 per cent increase, higher than in the previous year. Although the sub indices of coconut, rubber, forestry and fishing recorded increases of 25.8 per cent, 14.5 per cent, 18.1 per cent and 10.4 per cent, respectively, the paddy sub index declined by 5 per cent in contrast to the 29.7 per cent increase in the previous year. The 'other' agriculture sub sector, which covers all other crops in domestic agriculture and animal husbandry, recorded an increase of 11.7 per cent over the previous year. Despite the growth in most sub-sectors of agricultural production that benefited from favourable weather, higher industrial demand and input prices contributed to the recorded increases in those sub indices. The increase in the fishing sub index was driven by low fish production relative to pre-tsunami levels and the subsequent post-tsunami recovery in demand.

Price Movements

- **While prices of most domestically produced goods and services, as well as imported goods increased, prices of key items such as rice and wheat grain, among others, decreased during the year compared with prices of the previous year.** Prices of rice, a significant consumer item, dropped within a range of 5 to 10 per cent during 2005, in contrast to increases within a broad range of 16 to 28 per cent in 2004. The significant growth in paddy production in both Maha (21 per cent) and Yala (29 per cent) seasons was due to favourable weather conditions and an increase in extent under paddy cultivation. This was the main contributory factor to the observed price decline. The import prices of rice, in US dollar terms too, declined by around 9 per cent during the first half of

the year, though they rose sharply during the second half by around 38 per cent, resulting in around 13 per cent net increase in the price of imported rice over the previous year. Rice imports, however, declined by about 77 per cent in 2005 and amounted to only 3 per cent of the total supply, in comparison to 12 per cent in 2004. Accordingly, increased higher domestic production was the driving factor behind declining rice prices.

- **The domestic retail prices of sugar, a key consumer item with a share of between 3 to 6 per cent in all CPIs, rose by about 12 per cent compared to the 9 per cent rise in 2004.** In contrast to the situation for rice, sugar prices were driven by rising international prices due to the higher demand arising from its use as a biofuel internationally. The average price of imported sugar, which amounted to about 89 per cent of total supply, increased in US dollars terms by 26 per cent in 2005 over 2004. There was also a decline in domestic production of sugar by about 7 per cent due to a drop in sugar cane production by about 2 per cent and labour disputes. Hence, the share of domestic production in total sugar supply fell from 15 per cent in 2004 to around 11 per cent in 2005.
- **Prices of coconut increased following the decline in production, while prices of pulses rose, despite production increases.** The prices of coconut, that has a significant share in the average consumption basket, rose by about 31 per cent over the price levels in 2004. This contrasts with a drop in prices by about 1.5 per cent in 2004. During the first half of 2005, coconut prices increased significantly, by about 61 per cent, compared to the first half of the previous year, reflecting the drop in production by about 11 per cent due to the lagged effect of drought. However, this was mitigated by the decline in prices by 21 per cent during the second half compared to the first half owing to the gradual increase in production. Import prices of red dhal, another important consumer item, increased by around 10 per cent in 2005, resulting in a domestic price increase of about 11 per cent over the previous year. All varieties of pulses registered price increases within a range of 3 to 31 per cent in 2005, despite the increases in domestic production.
- **Prices of vegetables, tubers and fruits rose, even though their production expanded.** Prices of all varieties of vegetables, which are mostly domestically produced, rose in

Table 4.2
GDP Deflator

Sector	Index				Percentage Change		
	2002	2003	2004	2005	2003/2002	2004/2003	2005/2004
Agriculture	165.8	168.5	182.3	202.2	1.6	8.2	10.9
Industry	157.9	167.5	185.9	202.6	6.1	11.0	9.0
Services	158.9	168.1	183.0	201.3	5.8	8.8	10.0
GDP	160.0	168.0	183.6	201.8	5.0	9.3	9.9

Source: Central Bank of Sri Lanka

2005 over the previous year despite increases in production. This was different to the mixed trends recorded in 2004. However, there were mixed trends in the quarterly changes in prices during the first three quarters of the year, as reflected by the -22 to 17 per cent range for these quarters over the previous respective quarters. Meanwhile, in the fourth quarter, prices of almost all varieties of vegetables increased within a range of around 1 to 13 per cent compared to the third quarter, due to the seasonal slump in production aggravated by high rainfall during the months of November and December. Prices of both local and imported potatoes increased by about 9 per cent over the previous year. Prices of red onions and big onions (local) increased by about 13 per cent and 11 per cent during 2005 compared to the price increases of 5 per cent and 13 per cent, respectively, in the previous year. Although production increased, the lower supply situation due to spoilage as a result of rains at the end of the year contributed to the significant price increase during the fourth quarter, thereby resulting in the overall annual increase. The domestic retail prices of big onion remained high, despite the decline in the import price by about 9 per cent, mainly due to relatively lower imports during the year. All varieties of domestically produced fresh fruits recorded price increases at different rates within a range of 2 to 38 per cent, compared to the range of -11 to 9 per cent registered in 2004, despite increases in production for most key varieties.

- **Prices of fish, meat and dairy products experienced price increases at differing rates (8-33 per cent) in 2005.** Prices of these protein sources were higher throughout the year compared to the previous year, a phenomenon observed in the last few years as well. Although sea fish prices were low during the first two months due to the low demand that prevailed in the

aftermath of the tsunami, prices recovered to pre-tsunami levels by the end of the quarter, despite the drastic drop in production by 77.5 per cent in the first quarter of 2005. The quarterly changes in sea fish prices ranged from -1.5 per cent in the first quarter to 11 per cent in the fourth quarter of the year compared to the corresponding quarters of the previous year. Although fish production was low throughout the year due to the tsunami impact, average price increases of fish were fairly low, in a range of 8 per cent to 13 per cent in 2005. This was attributed to the lower prices registered in the Northern province, compared to prices elsewhere in the country. Inland fish prices registered a reversed quarterly trend: 45 per cent increase in the first quarter and 28 per cent increase in the fourth quarter, reflecting the substitution effect between the two sources of fish. Prices of eggs rose by about 32 per cent compared to the 5 per cent rise in the previous year. The highest increase, about 53 per cent, was registered during the first quarter over the first quarter of 2004, reflecting the shift from sea fish consumption due to the tsunami. Prices rose by over 15 per cent for all varieties of meat and prices of milk powder increased in the international market by about 13 per cent in US dollar terms. Prices of other milk based imported products too increased during the year. The increasing demand for food items with high protein and nutrition content as a result of rising living standards and the rising costs of inputs of production and of transport, would have contributed to these price developments during the year.

- **The import prices of certain key consumer items such as dried chillies, big onion, wheat grain and wheat flour decreased, whereas other intermediate and investment goods imports that affect consumer goods directly, as well as indirectly, registered price increases.** Among these

Table 4.3
Retail Prices of Key Imported and Domestically Produced Items^(a)

Item	Unit	SLCPI Weight	Price - Rs						Percentage Change			
			Annual Average			End - Year			Annual Average		End - Year	
			2003	2004	2005	2003	2004	2005	2004/2003	2005/2004	2004/2003	2005/2004
Domestic	Red Kekulu Rice	Kg	28.02	35.19	32.82	29.78	41.72	32.10	25.6	-6.7	40.1	-23.1
	Par Boiled (Highest)	Kg	27.71	34.09	31.72	30.03	39.66	33.65	23.0	-7.0	32.1	-15.2
	Kora (Highest)	Kg	27.55	33.31	31.72	29.63	37.84	32.46	20.9	-4.8	27.7	-14.2
	Coconut (medium)	Nut	12.87	12.68	16.63	11.61	18.39	16.39	-1.5	31.2	58.4	-10.9
	Fish - Kelawalla	Kg	222.74	238.07	263.84	225.31	242.68	275.60	6.9	10.8	7.7	13.6
	Beans	Kg	56.59	57.00	69.42	61.05	56.07	73.64	0.7	21.8	-8.2	31.3
	Brinjal	Kg	34.60	36.27	42.01	40.07	54.27	45.76	4.8	15.8	35.4	-15.7
	Eggs	Each	5.23	5.51	7.26	5.36	7.03	6.71	5.4	31.8	31.2	-4.6
Imports	Sugar	Kg	34.27	37.51	41.93	34.15	38.76	43.66	9.5	11.8	13.5	12.6
	Milk Powder	400g	128.47	136.98	156.29	129.98	149.52	158.98	6.6	14.1	15.0	6.3
	Red Dhal	Kg	58.57	69.25	76.55	61.18	75.26	75.87	18.2	10.5	23.0	0.8
	Wheat Flour	Kg	25.21	25.87	28.98	25.45	27.22	29.13	2.6	12.0	7.0	7.0

(a) Price information up to June 2004 were based on monthly prices from 93 centres. From July 2004 onwards, price data have been updated to include prices from 14 new centres in the Northern and Eastern provinces.

Source : Central Bank of Sri Lanka

Table 4.4
Administered Price Revisions

Item	Unit	Price (Dec.)			Percentage Change	
		2003	2004	2005	2004/2003	2005/2004
Cigarettes (Gold Leaf)	Each	8.50	9.00	10.50	5.9	16.7
Cigarettes (Bristol)	Each	7.00	7.50	9.00	7.1	20.0
Coconut Arrack	750 ml	300.00	338.50	365.00	12.8	7.8
Extra Special Arrack	750 ml	260.00	290.00	335.00	11.5	15.5
Diesel	1 Ltr.	32.00	44.00	50.00	37.5	13.6
Kerosene	1 Ltr.	25.50	25.50	30.00	0.0	17.6
Petrol	1 Ltr.	53.00	70.00	80.00	32.1	14.3
Furance Oil (1000)	1 Ltr.	23.20	24.70	24.70	6.5	0.0
Furance Oil (1500)	1 Ltr.	22.30	24.30	30.30	9.0	24.7
Furance Oil (3500)	1 Ltr.	20.70	22.00	28.00	6.3	27.3
Water	Unit range 16-20	6.50	6.50	8.50	0.0	30.8
	Unit range 21-25	20.00	20.00	30.00	0.0	50.0
	Unit range 26-30	45.00	45.00	50.00	0.0	11.1
	Unit range 31-40	45.00	45.00	60.00	0.0	33.3
	Unit range 41-50	45.00	45.00	70.00	0.0	55.6
	Unit range > 50	45.00	45.00	75	0.0	66.7
Bus Fare	-	-	-	-	6.0	15.0

Source : Central Bank of Sri Lanka

intermediate imports, the price of crude oil, the most important intermediate import, increased on average, by 41 per cent to US dollars 53 per barrel compared to 38 per barrel in 2004. The respective increases were 28 per cent and 17 per cent in 2004 and 2003. The highest increase was in the month of April by about 50 per cent. Accordingly, domestic prices of petroleum products, diesel, petrol, kerosene and furnace oil, were revised upward twice during the year in response to changing international prices. The increases in kerosene, petrol and diesel prices were evident from the increase in the fuel and light sub index and the increase in transport expenditure in all available Consumer Price Indices (CPIs). The average domestic price of LPG increased by 26 per cent, in response to a 27 per cent increase in US dollar terms of the import price. This had a significant impact on the prices of prepared foods. On average, the US dollar price of a metric ton of fertiliser too increased by about 21 per cent over the year. Investment goods imports prices too, notably building materials, increased within a range of 4 to 20 per cent in 2005, as against increases of 1 to 8 per cent in the previous year. These increases in intermediate and investment goods import prices adversely impacted on overall price developments during the year.

Provincial Price Variations

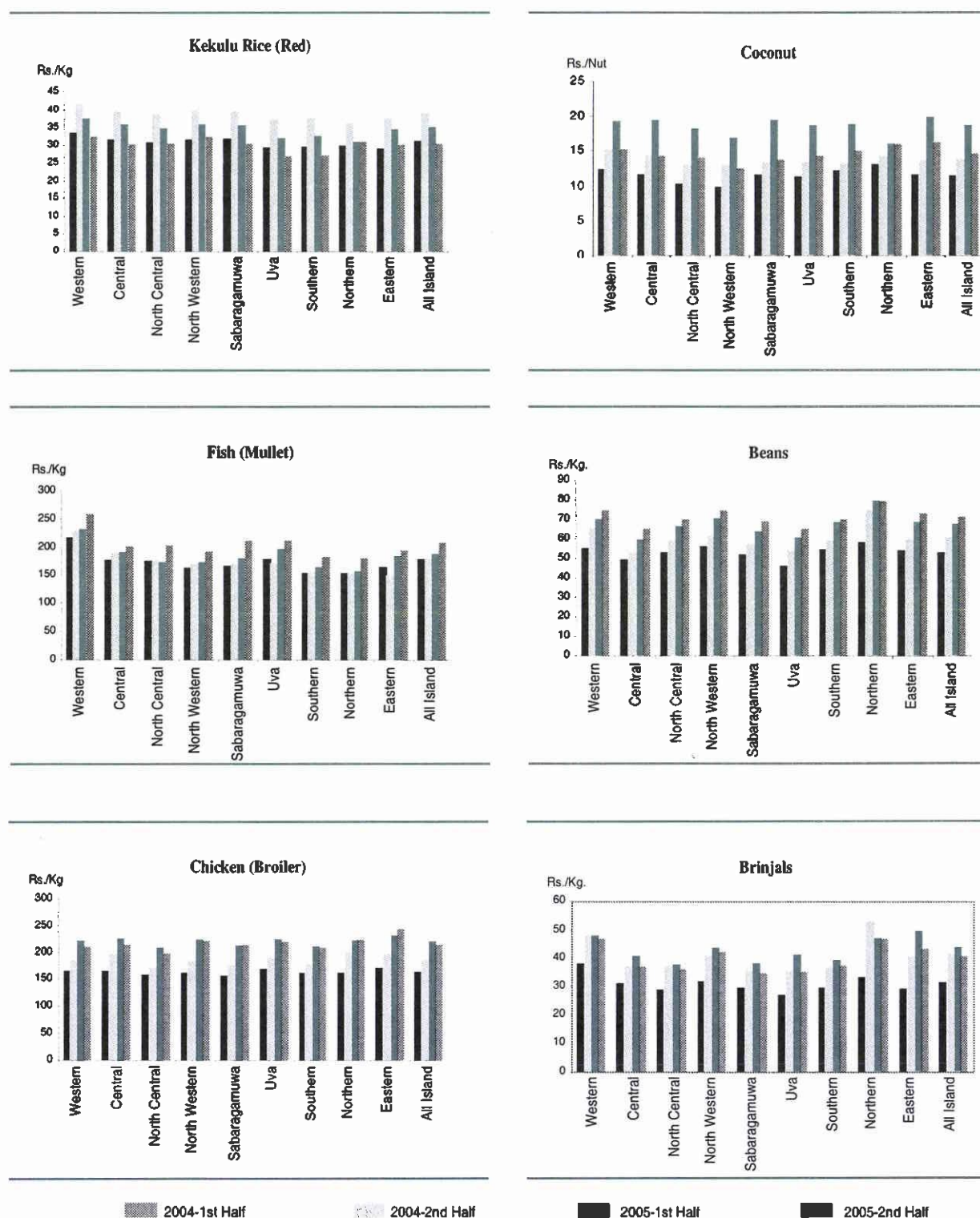
- **Variations in prices of goods among provinces exist due to a number of factors related to demand, supply and quality.** The supply side factors depend on the area under production, productivity improvements, improved efficiency in distribution channels and the availability of timely market information. The provincial variations of retail prices between 2004 and 2005 were compared for selected commodities using a statistical

measure, namely, the Coefficient of Variation (CV). This measured the variability of average prices across the provinces relative to the national average.³

- **The price variations for perishable items were relatively high.** CVs for most varieties of vegetables were high. The CVs for low country vegetables were higher compared to the CVs for up country vegetables. The CVs for most varieties of fresh fish, another highly perishable item, were also relatively higher owing to the infrastructure in the fisheries sector being badly damaged by the tsunami. As a consequence of the destruction of refrigeration and storage facilities, and more difficult transport access, especially to the Northern and Eastern coastal areas, distribution of the supply of fish, in excess of limited local demand in those areas, may have been difficult. This would have led to downward pressure on prices. The prices in the Northern province were significantly lower than prices in other provinces. This contributed to the observed high variations in fish prices across the provinces.
- **Price variations of food items with a relatively longer shelf life remained relatively low across provinces.** The estimated variation in prices for all varieties of rice was below 7 per cent. CVs of red onions and eggs had narrowed compared to the previous year, although price levels remained high. However, with the rise and fall in prices during the year, the variability in prices of coconut had increased, where the estimated CV was about 8 per cent in 2005, as against around 5 per cent in the previous year.

3 The Coefficient of Variation (CV) is a statistical measure that measures the variability of the values of a given item relative to its average value (i.e. (standard deviation/mean)*100). Accordingly, a lower CV indicates less variability and vice versa.

Chart 4.3
Retail Prices of Selected Commodities by Province (a)



(a) Price information up to June 2004 were based on monthly prices from 93 centres. From July 2004 onwards, price data have been updated to include prices from 14 new centres in Northern and Eastern provinces.

Table 4.5
Coefficient of Variation (CV) for Selected Key Consumer Items^(a)

Item	SLCPI weight	1st Half		2nd Half	
		2004	2005	2004	2005
Rice - Samba Rice (Highest)	16.3	4.6	4.9	3.5	5.8
- Par Boiled (Highest)		3.9	5.6	4.4	5.2
- Kekulu-Red (Highest)		4.2	5.1	4.4	6.4
- Kora (Highest)		6.9	5.8	5.1	4.2
Coconuts	5.4	7.7	6.1	5.5	7.8
Potato(Local)	0.7	2.1	2.9	4.0	4.5
Red Onions	1.1	5.2	5.4	7.0	6.4
Dried Chillies (Ord.)	1.4	2.9	4.8	3.7	3.6
Vegetable - Beans	1.3	6.4	6.6	11.6	6.6
- Beetroot	0.6	7.5	10.1	10.4	11.5
- Brinjals	0.9	9.0	12.2	17.1	12.2
- Ladies Fingers	0.6	12.2	12.4	13.1	12.7
Fish - Mullet ^(b)	-	10.6	11.4	13.3	11.2
Chicken (Broiler)	1.0	2.7	3.5	5.5	6.2
Eggs	0.6	4.9	3.9	6.3	5.5

Source : Central Bank of Sri Lanka

(a) Price information up to June 2004 were based on monthly prices from 93 centres. From July 2004 onwards, price data have been updated to include prices from 14 new centres in the Northern and Eastern provinces.

(b) Although fish - mullet is not included in the SLCPI, it is consumed in all 9 provinces as evident from CFS 2003/04

- The higher price variations of more perishable commodities, as indicated by the CVs, also reflect quality variations based on efficiency of storage, refrigeration, transportation and handling. The differences in these aspects of market efficiency across the provinces would have contributed to the existing high price variations of such consumer items among the provinces.

4.3 Wages

Public Sector

- In 2005, as in 2004, public sector employees were able to enjoy significant wage increases as a result of the implementation of the second salary revision of 2004

effective from 01 December 2004.⁴ Public sector wages and salaries are fixed by the state and revisions to these wages are made from time to time. The December 2004 revision granted a 40 per cent increase of the basic salary subject to a minimum of Rs.3,250 per month and a maximum of Rs.9,000 per month, plus allowances. The new salary scales were to be implemented in two stages: Rs.2,500 or 50 per cent of the proposed increase, whichever was higher, was effective from December 2004, and the balance from January 2006, subject to the recommendations of the National Council for Administration. As a result of the first salary increase, wage indices of non-executive officers, minor employees and government school-teachers rose by 28 per cent, 31 per cent and 27 per cent, respectively, in 2005 in nominal terms compared to 2004. Accordingly, the overall nominal wage rate index for government employees increased by around 29 per cent.

- When nominal increases of government employees' wages were adjusted for CPI inflation, their real wage increases were in a range of 14 per cent to 18 per cent. Overall, minor employees received the highest percentage increases in real wages among all three categories. These wage increases were similar to those in the previous year. Consequently, despite high inflation, public sector employees, on average, enjoyed similar, real wage increases in both 2004 and 2005.

Formal Private Sector

- In parallel to the increase in public sector salaries under the Budget Proposals 2005, a new Budgetary Relief Allowance of Workers Act (2005) was enacted in Parliament with effect from 1 August 2005 to increase private sector salaries by Rs. 1,000. This Act enables the government to protect private sector

4 The public sector consists of two sub sectors, namely, government (central, provincial, and local government sectors) and semi-government (state corporations, statutory boards and state authorities).

Table 4.6
Wage Rate Index Numbers
(December 1978=100)

Employment Category	Nominal			Real			Percentage Change			
							Nominal		Real	
	2003	2004	2005(a)	2003	2004	2005(a)	2004	2005(a)	2004	2005(a)
1. Government employees										
Central government employees	1,525.0	1,872.1	2,417.5	108.1	123.3	142.7	22.8	29.1	14.0	15.8
Non-executives	1,410.3	1,709.0	2,178.4	100.0	112.5	128.6	21.2	27.5	12.6	14.3
Minor employees	1,636.7	2,039.5	2,672.4	116.0	134.3	157.8	24.6	31.0	15.7	17.5
Government school teachers	1,180.1	1,428.4	1,818.6	83.7	94.1	107.4	21.0	27.3	12.4	14.1
2. Workers in wages boards trades										
All wages boards trades	1,205.2	1,233.0	1,329.7	85.4	81.3	78.5	2.3	7.8	-4.8	-3.5
Workers in agriculture	1,382.2	1,397.7	1,527.4	98.0	92.2	90.2	1.1	9.3	-5.9	-2.3
Workers in industry and commerce	1,009.4	1,044.1	1,078.4	71.6	68.9	63.7	3.4	3.3	-3.7	-7.6
Workers in services	678.0	751.0	779.7	48.1	49.5	46.0	10.8	3.8	2.9	-7.0

(a) Provisional

Sources : Department of Labour
Central Bank of Sri Lanka

employees from the rising cost of living. Wages in the formal private sector are influenced by wage increases announced by the government, as well as individual contracts of employment, collective agreements, unilateral decisions by employers and minimum wage decisions of Wages Boards.⁵ The impact of the mandated increase under the above Act on minimum wage indices in the formal private sector was limited.

- **Nominal minimum wages in the three major sectors in the formal private sector, Agriculture, Industry and commerce, and Services, increased by 9 per cent, 3 per cent and 4 per cent, respectively in 2005.** Accordingly, the overall nominal minimum wage rate index compiled by the Department of Labour for Wages Boards Trades for these sectors increased by around 8 per cent. Employees in all three sectors suffered a loss in their minimum real wages. Employees in the service sector, the only sector, which enjoyed a real minimum wage increase in 2004, suffered the greatest loss in 2005. Employees in Industry and commerce suffered greater losses compared to 2004. Though employees in agriculture suffered a loss, it was less than in 2004 and the overall loss in 2005. In the context

of high inflation in both 2004 and 2005, the increases in minimum wage rates were inadequate to ensure maintenance of minimum real wages in both years, on average. However, since the minimum wage indices do not cover all payments and wages earned by managerial and professional categories in these sectors, the overall actual situation could be different to that reflected in these minimum wage indices.

Informal Private Sector

- **The information on informal sector daily wages collected under the Country Wide Data Collection System (CWDCS) of the Central Bank, which covers the agriculture and construction sectors, revealed relatively low changes in wage rates.** Nominal wages in the informal private sector are determined in a free market environment.⁶ They are influenced by various factors such as the rising cost of living, prevailing market conditions, the degree of labour intensity and skills required in their work and alternative opportunities to shift work among different activities and regions. Nominal daily wage changes in the Agriculture sector varied from -1 per cent to 6

5 The formal private sector comprises private sector institutions that contribute to the general Employee's Provident Fund (EPF) or maintain their own provident funds with the approval of the Commissioner of Labour.

6 The informal private sector comprises all employees that fall outside the public sector and formal private sector.

Table 4.7
Informal Private Sector Daily Wages by Sector and Gender (a)

Sector	Annual Average (Rs.)			Percentage Change			
				Nominal		Real	
	2003	2004	2005 (b)	2004	2005 (b)	2004	2005 (b)
1. Agriculture Sector							
Tea							
Male	276	304	300	10.4	-1.3	2.8	-12.9
Female	199	218	217	9.5	-0.5	1.9	-12.1
Rubber							
Male	278	304	306	9.1	0.8	1.5	-10.8
Female	214	229	232	6.9	1.3	-0.7	-10.3
Coconut (c)							
Male	335	367	388	9.3	5.8	1.7	-5.8
Paddy							
Male	304	345	361	13.6	4.5	6.0	-7.1
Female	230	260	261	12.9	0.6	5.3	-11.0
2. Construction Sector (c)							
Carpentry							
Master Carpenter - Male	470	516	557	9.7	7.9	2.1	-3.7
Skilled and Unskilled Helper- Male	322	356	368	10.5	3.5	2.9	-8.1
Masonry							
Master Mason - Male	466	510	553	9.5	8.6	1.9	-3.0
Skilled and Unskilled Helper- Male	320	354	369	10.7	4.2	3.1	-7.4

Source : Central Bank of Sri Lanka

(a) Wage information up to June 2004 were based on monthly wages from 93 centres. From July 2004 onwards, wage data have been updated to include wages from 14 new centres in the Northern and Eastern provinces.

(b) Provisional

(c) Female participation is minimal in the Coconut and Construction sectors.

percent during 2005. Wages in the construction sector increased within a range of 4 to 9 per cent.

- **Within the agriculture sector, except in the tea sector, all other sectors recorded marginal increases in nominal wages.** Wages for plucking and maintenance activity (building bunds, digging ditches, fixing pegs, manuring and bending plants) in the tea sector increased, while those for replanting (preparation of land, digging pits, closing pits and planting) decreased. As a result, overall, the tea sector recorded a marginal decrease in nominal wages. Consequently, real wages in the agricultural sector dropped between 6 to 13 per cent compared to changes within a range of -0.7 to 6 per cent in the previous year.
- **In 2005, demand for construction sector workers rose as construction sector activities expanded.** This was highlighted by the increases in consumption of cement and other building materials and an increase in loans from banks for housing projects. As a result, wages for construction sector workers recorded increases in nominal terms. Master carpenters and master masons recorded higher nominal wage increases than skilled and unskilled helpers during year. However, all categories in the construction sector suffered losses in real wages. When adjusted for inflation in 2005, real wages in the construction sector varied within a range of -8 per cent to -3 per cent.

Table 4.8
Population By District

District	2004	2005(a)	Change	'000 Persons Percentage change
Colombo	2,342	2,382	40	1.7
Kandy	1,325	1,343	18	1.4
Ratnapura	1,049	1,060	11	1.0
Badulla	813	825	12	1.5
Kurunegala	1,486	1,498	12	0.8
Gampaha	2,099	2,111	12	0.6
Galle	1,020	1,030	10	1.0
Anuradhapura	773	782	9	1.2
Kalutara	1,085	1,094	9	0.8
Matara	788	795	7	0.9
Nuwara Eliya	722	729	7	1.0
Ampara	613	618	5	0.8
Batticaloa	544	549	5	0.9
Puttalam	728	737	9	1.2
Jaffna	596	603	7	1.2
Matale	459	466	7	1.5
Trincomalee	383	388	5	1.3
Hambantota	538	542	4	0.7
Moneragala	410	415	5	1.2
Polonnaruwa	372	377	5	1.3
Mullaitivu	144	141	-3	-2.1
Kilinochchi	143	145	2	1.4
Vavuniya	142	145	3	2.1
Kegalle	791	794	3	0.4
Mannar	97	99	2	2.1
Total	19,462	19,668	206	1.1

(a) Provisional

Source: Registrar General's Department

4.4 Population, Labour Force and Employment

Population

- **According to the Registrar General's Department (RGD) the estimated mid year population of 2005 was 19.7 million.** This was a growth of 1.1 per cent over the previous year. The population growth rates of all three age categories, (below 15 years, 15-54 years, and 55 years and above) were similar to the growth rate of the mid year population. All districts contributed to the expansion in population, except Mullaitivu district. High increases in population were recorded in Colombo, Kandy, Kurunegala, Gampaha and Badulla districts. Colombo, Gampaha and Kurunegala continued to absorb 30 per cent of the total population. There was a contraction in the population in Mullaitivu district by 2.1 per cent in 2005, partly due to out-migration from the coastal areas following the Tsunami devastation. This contraction may have influenced the population growth in the neighbouring districts of Kilinochchi and Vavuniya in the same province.

Labour Force

- **The labour force, the sum of employed and unemployed persons, is estimated by the Quarterly Labour Force Survey (QLFS) conducted by the Department of Census and Statistics (DCS).** However, owing to the tsunami, the DCS could not conduct the QLFS quarterly in 2005 due to the absence of a sample frame in the tsunami-affected areas of the country and involvement of DCS officers in tsunami related surveys in the first half of 2005. Instead, with the availability of a new sample frame by mid 2005, the DCS conducted one Special Labour Force Survey (SLFS), which covered the entire country, in August 2005. The SLFS consisted of 4,300 households from non-tsunami areas and 1,050 households from

7 The QLFS coverage excluded the Northern and Eastern Provinces upto end 2002. From the first quarter 2003, coverage extended to the Eastern Province. From the first quarter 2004, coverage extended to the Northern Province in stages.

Chart 4.4
Trends in the Labour Force and Unemployment 2001-2005

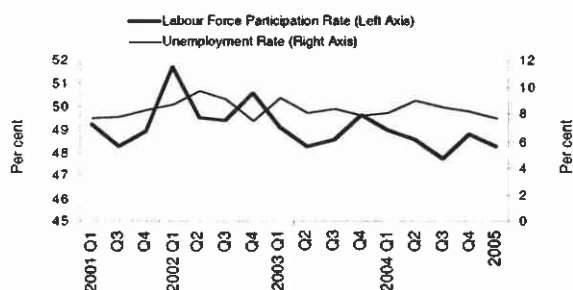


Table 4.9
Household Population, Labour Force and Labour Force Participation

Item	2002(a)	2003(b)	2004(c)				2005(d)			
	Q4	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Non-Tsunami Areas	Tsunami Areas
Household Population (e) '000 Persons	14,272	15,785	16,593	16,316	16,525	16,702	16,710	16,871	16,214	657
Labour Force '000 Persons	7,219	7,835	8,061	7,987	8,038	7,984	8,162	8,141	7,859	282
Employed	6,677	7,215	7,394	7,337	7,314	7,305	7,495	7,518	7,269	249
Unemployed	542	620	667	650	724	679	667	623	590	33
Labour Force Participation Rate (f) per cent	50.6	49.6	48.6	49.0	48.6	47.8	48.8	48.3	48.5	43.0
Male	68.5	68.0	66.7	67.4	67.7	65.7	67.0	67.1	67.1	66.2
Female	33.9	32.0	31.5	31.4	30.8	31.0	31.7	30.9	31.2	21.8

Source: Department of Census and Statistics

(a) Up to 2002Q4, QLFS coverage excluded both Northern and Eastern Provinces

(b) Commencing from 2003Q1, the Eastern Province was included and only the Northern Province was excluded from the QLFS coverage.

(c) From 2004Q1 QLFS coverage included both Northern and Eastern Provinces excluding Vavuniya, Kilinochchi and Mullaitivu districts and all districts, from 2004 Q2. However, Mullaitivu and Kilinochchi districts were excluded for 2004 annual estimates.

(d) QLFS was conducted as a one off survey in August 2005.

(e) Age 10 years and above.

(f) Labour force as a per cent of household population age 10 years and above.

tsunami affected areas, in comparison to the QLFS, which sampled around 4,000 households in each quarter of the year.

- According to the SLFS, the labour force, which is defined as persons who are aged 10 years and above, and able and willing to work, increased to 8.14 million persons in August 2005 compared to 7.98 million persons in the third quarter 2004.⁷ In 2005, the increase in the labour force was moderate compared to 2003 and 2004, in which years the sample coverage expanded through the inclusion of the Eastern and Northern provinces, respectively. Further, the loss of lives due to the tsunami devastation at the end of 2004 also restricted the increase in the labour force in 2005. The labour force consisted of 7.52 million employed persons and 0.62 million unemployed persons in 2005.
- The labour force participation rate (LFPR)⁸, increased to 48.3 per cent in August 2005 from 47.8 per cent in the third quarter 2004. This increase was mainly due to the increase in male LFPR to 67.1 per cent from 65.7 per cent in the third quarter of 2004. Meanwhile, the marginal decline in female LFPR over the same period had a dampening impact on the overall LFPR. The gender disparity, which showed the male LFPR to be twice that of the female LFPR over the years, continued in 2005 as well. Further, the LFPR of 43.0 per cent in the tsunami-affected areas of the country was somewhat lower, as could be expected, than in the rest of the country. It was also lower than the historical levels of around 48-52 per cent.

Employment

- The employment surveys conducted by the DCS define an employed person as one who worked for pay, profit or

family gain (unpaid) for one hour or more during the week preceding the survey. Employees temporarily absent from work, due to illness, bad weather or labour disputes, are also considered as employed. According to the SLFS, the employment rate in the non-tsunami areas was 92.5 per cent in August 2005. The working age population in tsunami affected areas accounted for just below 4.0 per cent of the total working age population in the country. Hence, even though the employment rate in the tsunami areas remained low, at 88.2 per cent, it had a minimal effect on the overall employment rate, 92.3 per cent in 2005, compared to 91.5 per cent in the third quarter of 2004.

- The high employment losses that were expected in hotels, fishing and small and medium industry that were severely affected by the tsunami did not materialise in 2005. Instead, employment opportunities were generated in excess of the losses, due to economic expansion and the recovery of those affected sectors. This was in addition to the construction sector growth, partly due to tsunami reconstruction work seen throughout 2005. This was reflected in the high employment rate estimated by the SLFS in August 2005. The increase in the share of employment in the construction sector to 6.1 per cent in 2005 from 4.7 per cent in the third quarter of 2004 reflected the high growth in the construction sector during 2005. Further, the share of employment of the manufacturing sector also increased in parallel to the growth of 6.0 per cent recorded in the manufacturing sector during the reference period. Although the share of increase of employment in the services sector was marginal in 2005 compared to the third quarter of 2004, employment in the sector increased by around 120,000 during the same reference period. This was contributed to by employment increases in the Transport, storage and

⁸ The ratio of the labour force to the household population aged 10 years and above

Table 4.10
Employment by Economic Activity

Sector	In Thousand Persons					Percentage of Total Employment		
	2004(a)					2004		2005
	Annual	Q1	Q2	Q3	Q4	Annual	Q3	Annual
Agriculture	2,475	2,355	2,608	2,492	2,586	2,306	34.1	30.7
Industry	1,689	1,625	1,630	1,564	1,716	1,843	21.4	24.5
Manufacturing	1,307	1,242	1,239	1,221	1,279	1,385	16.7	18.4
Construction	382	383	390	344	437	458	4.7	6.1
Services	3,230	3,357	3,076	3,248	3,195	3,369	44.5	44.8
Trade and hotels, etc.	1,031	1,141	961	1,013	1,042	1,043	13.9	13.9
Transport, storage and communication	417	401	460	418	409	485	5.7	6.5
Finance, insurance and real estate	176	171	193	187	158	234	2.6	3.1
Personal services and other (c),(d)	1,606	1,644	1,461	1,630	1,586	1,607	22.3	21.4
Total employment	7,394	7,337	7,314	7,305	7,495	7,518	100	100
Percentage of labour force	91.7	91.9	91.0	91.5	91.8	92.3		

Source: Department of Census and Statistics

- (a) From 2004Q1 QLFS coverage included both Northern and Eastern Provinces excluding Vavuniya, Kilinochchi and Mullaitivu districts and all districts, from 2004Q2. However, Mullaitivu and Kilinochchi districts were excluded for 2004 annual estimates.
 (b) QLFS was conducted as a one-off survey in August 2005.
 (c) Mining and quarrying categorised under Personal Services and Other in the QLFS from 2002-Q1
 (d) Electricity, gas and water categorised under Personal Services and Other in the QLFS from 2001-Q1

communication and Finance, insurance and real estate sub sectors that grew healthily. The trade and hotel sector, which was severely affected by the tsunami devastation, recovered fast enough to retain its share of employment in 2005 at a level equal to the third quarter 2004. Meanwhile, both the share of employment and number employed in the Personal services and other sub sectors declined, even though employment in education within that sector increased significantly due to permanent postings of teachers under the government's graduate employment programme in 2005.

- The share of employment in the agriculture sector, which includes the agriculture, forestry and fishing sub sectors, declined to 30.7 per cent in August 2005 from 34.1 per cent

in the third quarter of 2004 despite healthy growth in the agriculture sector, particularly domestic agriculture. The decline in employment could have been due to a shift of excess labour from agriculture to other sectors with a high demand for employment. Such a shift could have occurred especially due to tsunami reconstruction and rehabilitation activities. This apparent shift has not affected production levels due to use of technology at various stages from cultivation to processing in the agriculture sub sector in 2005. Although the fishing sub sector is reviving somewhat faster than expected, the level of employment was lower than in 2004. Thus, comparatively low employment in both sub sectors, agriculture and fishing was reflected in the decline in the share of employment in the agriculture sector in 2005.

Table 4.11
Status of Employment

Period						Percentage
	Public Sector Employees	Private Sector Employees	Employers	Self-Employed	Unpaid Family Workers	Total
2004 (a)	13.0	46.4	2.9	28.3	9.4	100
1st Quarter	13.8	47.3	2.8	27.6	8.5	100
2nd Quarter	12.4	47.0	3.3	28.8	8.5	100
3rd Quarter	12.9	47.2	2.4	28.7	8.8	100
4th Quarter	12.2	46.7	2.4	28.8	9.9	100
2005 (b)	13.3	46.1	3.1	29.7	7.9	100

Source: Department of Census and Statistics

- (a) From 2004Q1 QLFS coverage included both Northern and Eastern Provinces excluding Vavuniya, Kilinochchi and Mullaitivu districts and all districts from 2004Q2. However, Mullaitivu and Kilinochchi districts, were excluded for 2004 annual estimates.
 (b) QLFS was conducted as a one-off special survey in August 2005.

- According to the SLFS, among the categories of employment status, the share of employment of private sector employees showed the highest decline, from 47.2 per cent in the third quarter of 2004 to 46.1 per cent in August 2005. The share of employment in the unpaid family workers category also recorded a decline in 2005. In contrast, the share of employment in the employers and self-employed categories in the private sector rose. Each category recorded greater increases than the increase in the share of public sector employees in 2005 compared to the third quarter of 2004. This was in spite of the government's graduate employment programme.
- The government policy of expanding public sector employment through the graduate employment programme, which began in the fourth quarter of 2004, was mainly responsible for the increased share of public sector employees. Initially, the government trained about 42,000 graduates as a special project under the Ministry of Finance before posting them to permanent positions in various public sector institutions during the first three quarters of 2005. As a result, there was only a shift of 42,000 trainee graduates under the graduate trainee programme in the Ministry of Finance to various public sector institutions in 2005. Although the government cancelled the Management Circular No.16(1) dated 24 October 2002, that directed the downsizing of the public sector in the country, in order to effect recruitments, particularly under the graduate employment programme in 2004, large scale recruitment programmes did not take place in 2005, except for recruitments to a few public sector institutions. A marginal expansion in public sector employment was reflected in the estimates of the Annual Public Sector Employment Survey (APSES) conducted by the Central Bank. According to the APSES, employment in the public sector, which comprises government and semi-government institutions, increased by 0.8 per cent in 2005, compared to the significant increase of 5.0 per cent in 2004. Both government and semi-government sectors contributed towards the expansion.
- The government sector, which includes central government, provincial government and local government, experienced a marginal increase of 0.9 per cent in employment in 2005.

Table 4.12
Public Sector Employment

	2003	2004	2005(a)	Percentage Change	
				2003-2004	2004-2005
Government(b)	785,756	842,255	850,321	7.2	0.9
Semi-Government(c)	257,452	252,659	253,922	-1.9	0.5
Public Sector	1,043,208	1,094,914	1,104,243	5.0	0.8

Source: Central Bank of Sri Lanka

(a) Provisional

(b) Central Government, Local Government and Provincial Councils

(c) State Corporations, Statutory Boards and State Authorities

This was due to the relatively low overall increase in employment that took place in a few government institutions such as the Ministry of Health, Nutrition and Welfare, other than the graduate postings. In contrast, the government sector employment increased by 7.2 per cent in 2004 due to recruitment of 42,000 graduates as trainees under the graduate employment programme. Recruitments to the Ceylon Electricity Board and the two state banks in the semi-government sector led to a marginal increase in employment by 0.5 per cent in 2005 compared to 2004. There was also a complete stoppage of VRS programmes, which were targeted to reduce the excess staff in the semi-government sector. The VRS that commenced in 2001, tailed off in 2004 before its termination in the same year. As a result semi government employment had declined by 1.9 per cent in 2004.

Unemployment

- The unemployment rate estimated by the SLFS declined to 7.7 per cent in August 2005 from 8.3 per cent in 2004. This decline was due to the overall economic growth that prevailed during 2005, absorption of labour by the recovery from the tsunami devastation and implementation of the graduate employment programme. Even though the unemployment rate in the tsunami areas was higher at 11.8 per cent in 2005, it had a marginal impact on the overall unemployment rate because of the low share of the labour force of 0.3 million in the tsunami areas, compared to 7.9 million in the non-tsunami areas.
- Youth unemployment, especially among the more educated, which has been a long-standing problem, eased to some extent, with the implementation of the graduate employment programme in the public sector in 2005. This programme also contributed to the decline in the overall

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

Category	2004(a)					2005(b)
	Annual	Q1	Q2	Q3	Q4	Annual
All	8.3	8.1	9.0	8.5	8.2	7.7
By Gender						
Male	6.0	6.2	6.6	6.0	6.0	5.5
Female	12.8	12.2	14.0	13.5	12.5	11.9
By Age Group						
15-19	28.3	31.7	34.2	25.8	29.5	30.8
20-29	19.2	17.9	19.8	21.4	18.7	17.2
30-39	4.0	3.8	4.4	2.9	3.5	3.8
40 and above	1.3	1.5	1.3	1.1	1.3	1.2
By Education Level						
Grade 4/Year 5 and below	2.0	2.5	2.3	1.4	1.5	1.8
Grade 5-9/Year 6-10	6.9	7.3	8.0	6.6	7.4	6.3
GCE(O/L)/NCGE	12.3	11.6	12.9	14.1	12.1	11.5
GCE(A/L)/HNCE and above	16.8	14.6	19.0	17.3	16.8	13.8

Source: Department of Census and Statistics

(a) From 2004Q1 QLFS coverage included both Northern and Eastern Provinces excluding Vavuniya, Kilinochchi and Mullaitivu districts and all districts from 2004Q2. However, Mullaitivu and Kilinochchi districts, were excluded for 2004 annual estimates.

(b) QLFS was conducted as a one-off survey in August 2005.

unemployment level in the country. The unemployment rate of persons with GCE (O/L) and GCE (A/L) and higher qualifications recorded the highest declines among levels of education in 2005, compared to the third quarter of 2004. In fact, the GCE (A/L) and higher qualified category recorded its lowest unemployment rate of 13.8 per cent for that category since the inception of the QLFS estimates by the DCS in 1990. The persons with GCE (A/L) and higher qualifications mostly fall into the age group 20-29 years, and the lower rate of educated youth unemployment was also evident from the decline in the unemployment rate in this age group to 17.2 per cent in 2005 from 21.4 per cent in the third quarter of 2004.

Foreign Employment

- According to the Sri Lanka Bureau of Foreign Employment (SLBFE), foreign employment placements grew by 8.2 per cent in 2005 to 230,963 compared to 2004. This exceeded the mid-year forecast of around 221,000 for 2005. This increase was mainly boosted by employment placements in the second half of the 2005, which recorded around 119,482 compared to 111,481 in the first half of 2005. Saudi Arabia, UAE, Kuwait and Qatar absorbed around 80 per cent of migrant employees and Qatar, Saudi Arabia and UAE contributed significantly to the increase in foreign employment placements in 2005. The demand for skilled employees was significantly high in Qatar, while housemaid and unskilled categories also showed a somewhat higher demand in 2005. In contrast, almost the entire demand for migrant workers from Sri Lanka to Saudi Arabia and UAE was for housemaids.
- The share of male foreign employment, which was 25 per cent in the mid-1990s, increased from 37 per cent in 2004 to 41 per cent in 2005. The overall increase in the share of males in total foreign employment placements was mainly due to demand for skilled and unskilled males for jobs in Qatar in 2005. As a result, the share of females declined to 59 per cent

in 2005 from 63 per cent in 2004. However the share of housemaids, who belong to the lowest income earning group, increased to 54 per cent in 2005 from 52 per cent in 2004. Housemaids continued to retain the highest demand among the manpower categories of migrant workers with a share of around 86 per cent of the total increase of 17,511 foreign employment placements in 2005.

- Women have continued to accept migrant jobs as housemaids, especially in Middle Eastern countries, due to lack of employment opportunities at home and with the hope of accumulating significant savings. This is in spite of increasing concerns of high risks encountered in work places and problems in their own families. Foreign departures for unskilled manpower categories remained relatively high, though the number and share of foreign placements in this category declined in 2005 compared to 2004. The share of foreign departures of housemaids and other unskilled manpower categories is expected to decline in the near future because of the new government policy introduced under the budget proposals of 2006 to encourage skills development for migrant workers.

Table 4.15
Foreign Employment Departures by Country

Country	2004		2005		Change 2004-2005
	No.	Percentage Share	No.	Percentage Share	
Qatar	29,857	14.0	35,932	15.6	6,075
Saudi Arabia	70,891	33.2	76,113	33.0	5,222
U A E	32,702	15.3	36,282	15.7	3,580
Kuwait	36,533	17.1	36,099	15.6	-434
Other	43,470	20.4	46,538	20.1	3,068
Total	213,453	100.0	230,964	100.0	17,511

Source: Sri Lanka Bureau of Foreign Employment

Table 4.14
Foreign Employment

Item	2002	2003	2004	2005(a)		
				Annual	First Half	Second Half
Employment Placements	203,773	208,808	213,453	230,963	111,481	119,482
By Source (per cent)						
Licensed Agents	75	74	73	72	72	71
Other	25	26	27	28	28	29
By Gender (per cent)						
Male	35	36	37	41	41	41
Female	65	64	63	59	59	59
By Manpower Category (per cent)						
Housemaid	53	49	52	54	54	54
Skilled Labour	22	23	21	20	20	20
Unskilled Labour	18	21	20	18	18	18
Other	7	7	7	8	8	8

(a) Provisional

Source : Sri Lanka Bureau of Foreign Employment

Table 4.16
Labour Productivity by Major Economic Sector

	2001	2002	2003	2004	2005 (a)
1 GDP at Constant (1996) Prices, Rs. Million	843,794	877,248	930,057	980,720	1,039,735
Agriculture	169,377	173,623	176,450	175,852	178,475
Industry	231,350	233,562	246,417	259,286	280,695
Services	443,067	470,063	507,191	545,582	580,564
2 Total Employment, '000 Persons	6,235	6,670	7,012	7,319	7,518
Agriculture	2,033	2,359	2,384	2,485	2,306
Industry	1,491	1,387	1,529	1,607	1,844
Services	2,711	2,924	3,099	3,227	3,368
3 Labour Productivity, Rs. '000 per Person	135.3	131.5	132.6	134.0	138.3
Agriculture	83.3	73.6	74.0	70.8	77.4
Industry	155.2	168.4	161.2	161.3	152.2
Services	163.4	160.8	163.7	169.1	172.4

(a) Provisional

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

Labour Productivity

- In 2005, labour productivity, estimated on the basis of annual value addition per employee, was Rs.138,300 per person, which is the highest for the period 2001 to 2005. The increase in overall productivity was mainly due to the significant increase in productivity in the Agriculture sector and a marginal increase of productivity in the Services sector in 2005 compared to 2004. In contrast, productivity in the Industry sector declined in 2005 compared to 2004. This was a reversal of the general increasing trend since 2000. This decrease had a dampening impact on the overall productivity. Although there was an improvement in productivity in the Agriculture sector, it remained around half or even lower than the productivity in the Industry and Services sectors in 2005. Further, the low level of productivity in agriculture has remained throughout the period 2001 to 2005.

Labour Relations

- There was a significant decrease in the number of strikes in the plantation sector in 2005 compared to 2004. This indicates an improvement in the relationship between employers and employees. A major reason for this improvement could be the gradual move towards collective agreements adopted for wage bargaining. The man days lost due to strikes in the rest of the private sector was significantly high

in 2005 compared to 2004. This was mainly due to the three-day strike in the Regional Transport Companies involving around 40,000 workers in the first quarter of 2005. The remainder of the year experienced a somewhat calm labour environment with only 28 strikes taking place involving around 5,900 workers. The improvements seen in the employer-employee relationships, except for this one-off strike, is an encouraging sign. Further improvements in labour relations could lead to productivity improvements in the entire private sector.

Labour Market Reforms

- The Ministry of Labour Relations and Foreign Employment (MLRFE) amended the compensation formula on 15 May 2005 under the amendments to the Termination of Employment of Workmen Act (1971) (TEWA). The National Labour Advisory Council (NLAC), which comprises the MLRFE, trade unions and representatives from employers, was expected to establish a safety net (Unemployment Benefit Insurance Scheme (UBIS)), to provide income support and other benefits that promote employability of displaced workers in parallel with the compensation formula. However, the funding of UBIS was left unresolved, as the NLAC members could not finalise the sources of funding during 2005.

Table 4.17
Strikes in Private Sector Industries

Year	Plantation			Other		
	No. of Strikes	Workers Involved	Man Days Lost	No. of Strikes	Workers Involved	Man Days Lost
2004	44	15,832	40,779	46	17,514	40,321
2005 (a)	17	4,283	8,370	40	49,282	149,982
1st Quarter	3	278	1,144	12	43,413	132,664
2nd Quarter	6	1,074	1,666	14	2,810	7,918
3rd Quarter	4	1,627	3,607	8	1,524	3,797
4th Quarter	4	1,304	1,953	6	1,535	5,603

(a) Provisional

Source: Department of Labour

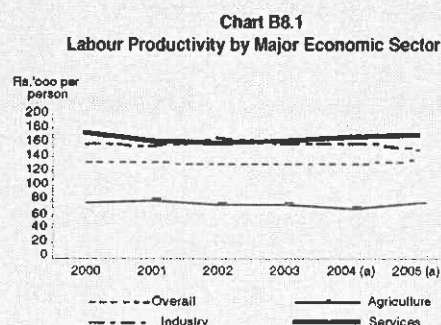
Labour Productivity and Underemployment

Box 8

Labour productivity estimated on the basis of annual value added per employee in constant terms at 1996 prices stood at Rs.138,300 in 2005. The per employee output in the Agriculture sector remained at around Rs.77,400, half or less compared to the value of output in the Industry and Services sectors, respectively (Chart 1). The Agriculture sector activities are concentrated in the rural sector with an abundance of labour. A significant share of employment opportunities in this sector is of a casual nature, lasting for short time periods linked to the cultivation seasons and available daily work. Therefore, there could be more employees engaged in economic activities below the normal duration in the Agriculture sector compared to other sectors¹.

In general underemployment exists when a person's employment is inadequate in relation to specified norms or alternative employment. For the purpose of Consumer Finances and Socio Economic Survey (CFS) conducted by the Central Bank of Sri Lanka, a person is underemployed if he is in employment for less than normal duration and is seeking, or would accept, additional work for a longer duration. Under this definition, persons who worked less than the specified norm due to legitimate reasons, such as vacation, illness or disability, were not considered as underemployed. Accordingly, the underemployment rate was 21.6 per cent of the total labour force in 2003/04. As a share

1 A working period of 35 hours a week was used as the norm for an employed person.



of total employed persons, the underemployment rate was 23.7 per cent (Table 1). The underemployment rate in the Agriculture sector remained highest and had increased faster than in the other sectors in 2003/04 compared to 1996/97, while the underemployment rate in the services sector and in all sectors had declined. Also underemployment among female employees, with relatively higher employment contribution to Agriculture sector activities, remained high.

Economic expansion generates new employment opportunities. These opportunities will not only absorb excess labour of the underemployed, but will also allow the remaining employees to engage in activities for longer hours in the Agriculture sector, thereby reducing underemployment and raising labour productivity in the sector. Meanwhile, economic expansion, coupled with skills training, can further strengthen the shift of excess labour away from the Agriculture sector.

In 2005, the Agriculture sector experienced a healthy growth in production, in spite of a decrease in employment. This was due to the shift of available labour, especially to the construction sector, partly due to reconstruction and rehabilitation activities related to the tsunami. The introduction of technology at various stages from cultivation to processing may have also facilitated the growth momentum in agricultural production, despite the decline in employment.

Table B8.1

Underemployed by Production Sector and Gender (As a percentage of the employed)

Production Sector	1996/97(a)			2003/04(b)		
	Male	Female	Both	Male	Female	Both
Agriculture	28.3	36.4	31.2	33.4	36.7	34.5
Industry	20.3	18.6	19.5	18.4	22.3	20.2
Services	21.1	16.8	20.0	18.0	17.3	17.8
All	23.5	25.6	24.2	23.0	25.4	23.7

Source: CFS Central Bank of Sri Lanka

(a) Excluding Northern and Eastern provinces

(b) Excluding Killinochchi, Mannar and Mullaitivu districts

- A new Budgetary Relief Allowance of Workers Act (BRAWA) (2005) was enacted in Parliament (effective from 1 August 2005) to increase private sector salaries by Rs. 1,000 in parallel to the increase in public sector salaries under the Budget Proposals 2005. Its objective was to protect private sector employees from the rising cost of living. However, due to the anticipated problems that had to be faced with the cancellation of the Multi Fibre Agreement (MFA)

from January 2005 and the issue of renewing contracts with the clients in the middle of the year, the MLRFE deferred its implementation in the apparel sector and security trade, for a 6 month period till January 2006. Further, all plantations under 22 management companies, which had collective agreements, were excluded from the provisions of this Act.

- By using powers vested in him under the Industrial Disputes Act (IDA), the Minister of Labour Relations and

Foreign Employment extended the collective agreements in the plantation sector to the plantations covered by the Wages Boards of the Tea Growing and Manufacturing Trade and Rubber Growing and Manufacturing Trade as well. Employees gained through the increase in their daily salaries from Rs.135 to Rs.200 under the new collective agreements, though they were excluded from the provisions of the BRAWA. In addition, the Cabinet approved the Shop and Office Act amendments to repeal the restrictions on night work for females attached to the IT sector in 2005. This will be enacted as a law in Parliament soon.

- **Presently, the MLRFE, with the support of ILO, is in the process of amending the Factory Ordinance Act (1942), which covered only factories, to cover all work places.** The amended Act will be named the Occupational Safety and Health Act. Also, under the Budget Proposals of 2006, the MLRFE is planning to set up an Institution for Labour Studies for all stakeholders in the labour market with a view to educating them on their responsibilities.

4.5 Policies and Issues

- **The monthly communication of the monetary policy stance to the public helped to moderate inflation expectations towards the end of the year.** The gradual removal of monetary stimulus, along with aggressive open market operations, contained the demand driven pressure on prices due to excess demand associated with credit expansion in the government and private sector above the levels projected at the beginning of the year.
- **The economy has maintained its recent growth momentum, with signs of easing pressure on both inflation and unemployment in 2005.** However, against a background of rising import prices of key investment, intermediate and consumer goods, the impact of a tightening of monetary policy on achieving price stability began to show results mostly in the latter part of the year.
- **The pricing policy on fuel implemented during the year yielded short-term relief to consumers, but could burden budgetary resources and thereby affect price stability in the medium to long - term.** Keeping domestic prices of some fuel products below international prices and removal of the VAT on specific consumer and intermediate imports reduced price pressure, but would have affected budgeted government expenditure and revenue generation. Also, any possible adjustments that may have taken place in the consumption pattern in favour of more efficient utilisation of such items in response to cost increases was also prevented by these temporary relief measures.
- **Movements of international energy prices and forecasts about their future developments do not indicate any possibility of price declines in the future.** Hence, high international prices will not be a temporary phenomenon. In this case, long-term policies are required to address their adverse impact on the Sri Lankan economy. If domestic prices do not reflect international prices, public awareness about the long term net cost of this national burden is weakened and reduces public support, that could otherwise overcome the resistance from pockets of small interest groups, for introduction of cost-efficient energy policies for the country.
- **The government policy to increase public sector wages as well as to mandate a wage increase in the private sector, through the new BRAWA would have achieved some relief for wage employees against the rising cost of living.** Yet, wage increases in the public sector need to be linked to efficiency of output to avoid upward pressure on prices that could nullify monetary policy objectives of price stability. At the same time, the outcome of the BRAWA, while well meant, would have affected the profitability of private organisations, which raised wages to be commensurate with rising inflation as routine policy. It may also have signaled an implied interference with the decision-making that comes under the private sector's purview. This would not be compatible with developing a productivity based wage adjustment policy in the economy.
- **Flexibility in labour relations and consistent policies are key elements in creating an investor friendly business environment.** Such an environment helps increase international competitiveness through continuous improvements in productivity. Recent policy changes that led to the revision of the compensation formula under TEWA, mandatory private sector wage increases through the new BRAWA, and discontinuation of VRS programmes in public enterprises may be perceived by prospective local and foreign investors as reversal of previous policies to enhance labour market flexibility. A dialogue with the investor community to avoid any such negative perceptions would be helpful in the long-term.
- **The government policy to expand the public sector through its graduate employment programme reduced educated youth unemployment in 2005.** The government is also proposing to fill 10,000 public sector vacancies with new graduates under the "Yovun Diriya" programme in 2006. The overall increase in the public sector was expected to strengthen the public sector through improvement in the quality of services provided by recruiting a new work force with higher academic qualifications. Also by implementing these programmes, the government has attempted to minimise the educated youth unemployment problem, particularly the long-standing issue of graduate unemployment. The acceleration of employment in the public sector with the training and recruitment of 42,000 graduates in 2004 and 2005 and plans to recruit another 10,000 in 2006 could burden budgetary resources in the long term,

unless productivity and efficiency targets are met by the new recruits.

- **Recent policy proposals are expected to raise expectations about foreign employment and thereby increase the number of departures in the future.** Under these proposals, the government will provide special training centres. Further, migrant workers will be encouraged to engage in longer-term foreign employment through the introduction of duty free allowances for migrant workers who work abroad continuously for one or more years. The projected expansion in foreign employment placements would further strengthen Sri Lanka's balance of payments, while channeling foreign private remittances to the less-developed regions of the country. Yet, despite higher savings, migration results in other socio-economic problems for migrant workers, their families and society. The continuing supply of migrant labour from Sri Lanka would not be necessary if the economy can expand
- adequately to absorb the growing workforce in gainful employment, particularly in manufacturing and services, that generates foreign earnings within the country itself.
- **The proposed policies to enhance the skills of migrant labour are commendable, as it would enable them to earn higher wages in better working conditions with their higher level of skill.** Yet, encouraging a further exodus of the skilled workforce from Sri Lanka, and more particularly from the less developed non-urban areas, may not be compatible with the skills and workforce needed within the country to achieve the targeted 6-8 per cent growth with more balanced regional economic development proposed under the government's economic policy framework.
- In summary, while the current policies in all the above-mentioned areas are well intentioned, they need to be constantly reviewed and adjusted to ensure consistency and commitment to achieving sustainable high growth in the long-term.